

ECONOMIC NORMALIZATION:
SINO-AMERICAN TRADE RELATIONS FROM 1969 TO 1980

by

MIN SONG

(Under the Direction of William W. Stueck)

ABSTRACT

My dissertation examines Sino-American trade relations in the 1970s. In December 1950, the United States imposed a total embargo on China after China entered the Korean War. On April 14, 1971, it announced an end to that embargo. Trade then resumed between the two countries without full diplomatic relations between the two governments. During this decade Sino-American trade witnessed a sudden surge, then setbacks, and eventual normalization. By January 1980, the United States and China had entered a trade agreement and granted mutual Most Favored Nation (MFN) status, thus completing economic normalization a year after the normalization of diplomatic relations.

Sino-American economic normalization was significant to the development of Sino-American relations, the transformation of Chinese economy, and the unfolding of the Cold War. The resumption of Sino-American trade opened an opportunity for the two countries to move beyond the expedient cooperation against the Soviet Union and develop an interdependent and enduring relationship. During the 1970s, American and Chinese business communities managed to build an infrastructure to sustain Sino-American economic exchange. Without the groundwork

laid in the decade, the fast growth of Sino-American trade in the last thirty years would have been unimaginable.

Given that China was in the midst of the xenophobic Cultural Revolution until late 1976, China's positive response to American businessmen was intriguing. Despite the heated anti-imperialist/capitalist propaganda in China, a few Chinese leaders battled with the left wing of the government and expanded China's trade with the capitalist countries. With increasing contacts with the West, China began to adopt many customary international trade practices. As Deng Xiaoping commented, these experiments with foreign trade were predecessors to China's opening up and economic reforms after the Cultural Revolution. America's economic engagement added the momentum in China to end the Cultural Revolution and start a new era of opening-up and economic reform. China's switch from a command economy to a market economy was a critical victory for the United States in the Cold War.

INDEX WORDS: United States, People's Republic of China, Trade, Cultural Revolution, Reform and Opening-up, Cold War, Most Favored Nation, National Council for U.S.-China Trade

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DEDICATION

I dedicated this dissertation to my mother, whose unconditional love carried me through all the way.

Han Jun

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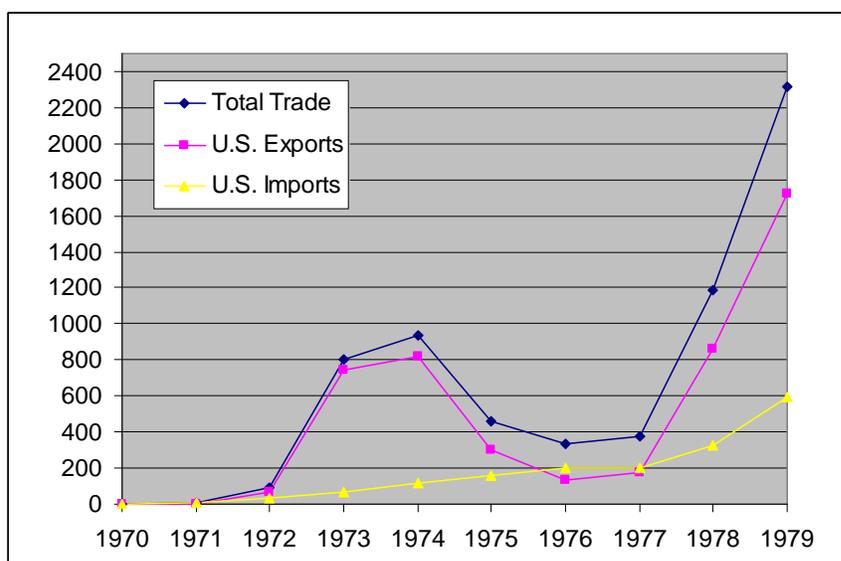
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ABBREVIATIONS

AIA	American Importer Association
CCP	Chinese Communist Party
CCPIT	China Council for the Promotion of International Trade
CIA	Central Intelligence Agency
COCOM	Coordinating Committee
COMSAT	Communications Satellite Corporation
MACHIMPEX	China National Machinery Import and Export Corporation
MFN	Most Favored Nation
NCUSCT	National Council for U.S.-China Trade
NSC	National Security Council
PRC	People's Republic of China
RCA	RCA Global Communications
ROC	Republic of China
TECHIMPORT	China National Technical Import Corporation
UN	United Nations
USG	U.S. Government
USSR	The Union of Soviet Socialist Republics

INTRODUCTION

This dissertation examines Sino-American trade relations from 1969 to 1980. In 1969, the United States began to relax its nineteen-year long total embargo on the People's Republic of China (PRC).¹ Two years later, it announced an end to that embargo. During the 1970s, Sino-American trade volume fluctuated greatly. It began with \$5.0 million in 1971, reached \$933.8 million in 1974, and then plummeted to \$337.3 million in 1976. In 1978, it topped one billion dollars, which doubled in 1979.² By 1980 the two countries had entered a trade agreement and granted each other Most Favored Nation (MFN) status.



Sino-American Trade Volume Changes in the 1970s (million in dollars)³

¹ The United States imposed a total embargo on China in response to China's intervention in the Korean War. For fine narratives of the Korean War, see William Stueck, *Rethinking the Korean War: A New Diplomatic and Strategic History* (Princeton: Princeton University Press, 2002); and Chen Jian, *China's Road to the Korean War: The Making of the Sino-American Confrontation* (New York: Columbia University Press, 1994).

² Information Office of the State Council Of the People's Republic of China, *On Sino-US Trade Balance* (Beijing, 1997) <http://english.people.com.cn/whitepaper/> See also Library of Congress, *A Country Study: China* (Washington, 1987) [http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field\(DOCID+cn0007\)](http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+cn0007))

³ John W. De Pauw, *U.S.-Chinese Trade Negotiations* (New York: Praeger, 1982), 5. De Pauw's data is from U.S., Department of Commerce, *Highlights of Exports and Imports*, FT-990 series (Washington, D.C.: Government Printing Office, 1970-1980).

This dissertation attempts to explain those fluctuations and explore the significance of Sino-American trade to the development of Sino-American relations, the transformation of the PRC from a self-isolated to an open country, and the unfolding of the Cold War. First, the resumption of Sino-American trade opened an opportunity for the two countries to move beyond the expedient cooperation against the Soviet Union and develop an interdependent and enduring relationship. Historians generally emphasize the role of strategic factors over economic factors in shaping Sino-American relations prior to 1989. The consensus is that the Soviet threat brought the United States and the PRC to rapprochement and undergirded the further development in Sino-American relations.⁴ After 1989, however, the centrality of economic factors to the bilateral relationship became self-evident. The American public began to heatedly debate U.S. economic policy towards China and American scholars produced numerous publications on contemporary Sino-American trade.⁵ Those extensive and highly politicized economic ties attested to the long-term effect of the resumption of Sino-American trade on their bilateral relations. This dissertation argues that economic factors shaped Sino-American relations in a more subtle but no less profound way than strategic factors in the 1970s and beyond.

It was the U.S. relaxation of its embargo on China that put the process of Sino-American rapprochement in motion. From 1969 to 1971, the United States used trade issues to probe Beijing's intentions. Strategic issues such as the Soviet threat, the Vietnam War, and the status of

⁴ See, for instance, Michael Schaller, *The United States and China: Into the Twenty-First Century*, 3rd ed. (New York: Oxford University Press, 2002), Warren I. Cohen, *American Response to China, A History of Sino-American Relations*, 4th ed. (New York: Columbia University Press, 2000), and Harry Harding, *A Fragile Relationship: The United States and China since 1972* (Washington: Brookings Institution, 1992).

⁵ See, for example, James R. Lilley and Wendell L. Willkie II ed., *Beyond MFN: Trade With China and American Interests* (Washington: AEI Press, 1994); K.C. Fung and Lawrence J. Lau, *The China-United States Bilateral Trade Balance: How Big Is It Really* (Stanford: Asia/Pacific Research Center, 1996); Elizabeth Economy and Michel C. Oksenberg, *China Joins the World: Progress and Prospects*, (New York: Council on Foreign Relations Press, 1999); Ethan Gutmann, *Losing the New China: A Story of American Commerce, Desire and Betrayal* (San Francisco: Encounter Books, 2004); and James McGregor, *One Billion Customers: Lessons From the Front Lines of Doing Business in China* (New York: Free Press, 2005).

Taiwan were too controversial to begin the process of rapprochement. In contrast, the relaxation of the embargo sent unmistakable signals of good will to Beijing without arousing emotional reactions from the American public or Beijing.

Moreover, the development of Sino-American trade was critical to sustain the momentum of Sino-American normalization. American and Chinese perceptions of the Soviet threat and other strategic issues were not always on the same page. When their differences on those issues began stalling the process of normalization, Sino-American trade helped reinforce their fragile ties and prevent their relationship from going backward.

During the 1970s, American and Chinese business communities built a necessary infrastructure for the continued development of Sino-American economic relations. In the process, they learned about each others' market, trade practices, and culture. They also accumulated invaluable experience to deal with the constraints imposed by the American and Chinese governments for political reasons. American businessmen began to form interest groups to lobby for a more liberal economic policy towards China. Among them was the National Council for U.S.-China Trade (NCUSCT) inaugurated in 1973. Chinese reformist officials struggled with the creed of "self-reliance" to expand trade with the West. They finally gathered momentum to change the course of the Cultural Revolution towards the end of the 1970s. The economic ties that these pioneers established eventually blossomed. Without the groundwork laid in the 1970s, the fast growth of Sino-American trade immediately after normalization would have been unimaginable.

Sino-American trade in the 1970s is an almost forgotten subject. The only recent work that covers it in some detail is Randall E. Stross's *Bulls in the China Shop: and Other Sino-*

American Business Encounters.⁶ This work focuses on American businessmen's personal experiences in China and their personal interpretations of their encounters with the Chinese. Although Stross correctly argues that Sino-American trade of the 1970s is important, his study does not fully develop this point. First, Stross focuses on American businessmen's experience at the Chinese Export Commodities Fair, or the Canton Trade Fair. The Canton Trade Fair was mainly to promote China's exports. Therefore, Stross's stories are largely about American importers. It was in Beijing where the central government made plans for massive imports and where China's foreign trade corporations conducted negotiations with American exporters. This dissertation will show the full spectrum of Sino-American trade by incorporating the experiences of American exporters, Chinese trade officials, and American importers.

Second, Stross oversimplifies China's domestic politics to explain China's impulse to import. He spends eight pages discussing China's large imports from the West in the mid-1970s and speculates that the Chinese leadership formed a sort of consensus on the need to expand imports from the West. A close examination of Chinese domestic politics shows that foreign trade policy was a divisive issue that was entangled with the ongoing ideological debate and political struggle in the 1970s. This was why China's foreign trade policy was ambiguous to Western observers. This dissertation examines China's domestic politics in greater depth to explain the tempo of China's foreign trade policy in the 1970s.

Above all, Stross emphasizes the personal experiences and feelings of American businessmen in China. This dissertation approaches Sino-American trade from official as well as unofficial aspects. It not only narrates specific trade deals but also takes political and strategic factors into account to explain the broad context. By examining the interaction between U.S.

⁶ Randall E. Stross, *Bulls in the China Shop* (New York: Pantheon Books, 1990).

officials, American businessmen, Chinese moderates, and Chinese radicals, this dissertation aims to demonstrate the dynamism of Sino-American trade relations in the 1970s.

The second theme of this dissertation is about the long and tortuous process of the PRC's opening to the West. When Sino-American trade resumed, China was in the midst of the Cultural Revolution characterized by heated anti-imperialist/capitalist propaganda. Diplomatic historians generally believe that the PRC was not interested in trade with the United States.⁷ The truth is, however, China welcomed American businessmen with both arms and played a major role in the initial growth of Sino-American trade. It was eager to buy American agricultural and technological products from and sell Chinese goods to the United States. In the early 1970s, it also aggressively pressed the United States to offer China MFN treatment.

China's intense interest in the American market grew out of its persistent quest for modernization by learning Western science and technology. That drive went back to the Westernization (Yangwu) Movement during the late Qing Dynasty in response to China's defeat in the Opium Wars. Since the 1950s, Sinologists have produced numerous publications to discuss the Western impact on late imperial and modern China.⁸ In recent years, they have greatly expanded the meaning of modernity and diversified the approaches to study China's

⁷ James Mann, for example, states that at first China was not interested in MFN status. See, Mann, *About Face: A history of America's Curious Relationship with China, From Nixon to Clinton* (New York: Vintage Books, 1998), 106. It is not true because China adamantly pursued MFN in 1972 and 1973.

⁸ See, for example, Ssu-yu Teng and John K. Fairbank, *China's Response to the West: A Documentary Survey, 1939-1923* (Cambridge: Harvard University Press, 1954); Benjamin I. Schwartz, *In Search of Wealth and Power: Yen Fu and the West* (Cambridge: Harvard University Press, 1964); Mary Wright, *The Last Stand of Chinese Conservatism: The T'ung-Chih Restoration, 1962-1874* (Stanford: Stanford University Press, 1957); and Ting-ye Kuo and Kwang-Ching Liu, "Self-Strengthening: The Pursuit of Western Technology," *The Cambridge History of China*, v. 10, ed. John K. Fairbank (Cambridge: Cambridge University Press, 1978), 491-542; and For a comprehensive review of the historiography on this subject up to the early 1980s, see, Paul A. Cohen, *Discovering History in China: American Historical Writing on the Recent Chinese Past* (New York: Columbia University Press, 1984).

trajectory toward modernization.⁹ However, it is unquestionable that Western technology was a most fundamental and enduring aspect of China's quest for modernity.

Subsequently, a constant struggle in modern China was between the import of Western science/technology and the maintaining of Chinese cultural purity. During the Westernization Movement in the late 19th century, the reformers put forth the "ti-yong" formula: "Chinese learning for the essential principles, Western learning for the practical applications."¹⁰ From the late Qing Dynasty to the Communist era, China saw a sea change in its dominant ideology that drastically altered the meaning of "Chinese learning." Yet the old "ti-yong" thinking was rooted in the Communist Beijing government, which believed in technological import but at the same time struggled to maintain its ideological purity. In the early 1970s, China's efforts to expand trade with the United States co-existed uneasily with its revolutionary agenda. This dissertation will show the tension between the resumption of Sino-American trade and Mao's revolution.

The "ti-yong" formula saved neither the Qing Dynasty nor Mao's revolution. Towards the end of the 1970s, Chinese reformers overcame the ideological constraints and transformed the piecemeal reforms in foreign trade into a fundamental national policy of Reform and Opening-up. This dissertation argues that China's modest economic opening in the early 1970s was a gradual lead-up to the post-Mao economic transition and demonstrated the continuity of China's quest for economic modernization from the second half of 19th century to the present day.

⁹ See, for example, Frank Dikötter, *The Discourse of Race in Modern China* (Stanford: Stanford University Press, 1992); Prasenjit Duara, *Rescuing history from the nation: Questioning narratives of modern China* (Chicago: University of Chicago Press, 1995); Frederic Wakeman Jr., and Wang Xi ed., *China's Quest for Modernization: A Historical Perspective* (Berkeley: Institute of East Asian Studies, 1997); Wen-hsin Yeh, *Becoming Chinese: Passages to Modernity and Beyond* (Berkeley: University of California Press, 2000), and Ruth Rogaski, *Hygienic Modernity: Meaning of Health and Disease in Treaty-Port China* (Berkeley: University of California Press, 2004).

¹⁰ Cohen, *Discovering History in China*, 29-30.

The popular treatment of twentieth-century Chinese history portrays the Cultural Revolution as a fanatical mass movement that paralyzed the country's economy. The myth is that the Deng Xiaoping-led new leadership shifted the focus of the communist regime from class struggle to economic development overnight after the end of the Cultural Revolution and launched the "Reform and Opening-up" that produced economic miracles for decades to come in China. This is at best an oversimplified narrative.¹¹

Many experts in Chinese economy dispute that narrative. For example, Barry Naughton asserts: "There appears to be a fundamental contradiction between the overwhelming negative appraisal of the Chinese economy pre-1978 and an overall growth performance substantially more impressive than any other low-income nations."¹² In the fifteenth volume of *The Cambridge History of China*, Dwight H. Perkins also concludes that "to the surprise of many analysts," China's economy was in steady growth during the Cultural Revolution except for the years of 1967 and 1968.¹³ Naughton, Perkins and other historians of Chinese economy, however, have only briefly noted the expansion of Chinese foreign trade with the West in the early 1970s and have not provided any in-depth analysis of it.¹⁴

¹¹ The post-Mao leadership first put forth that narrative to justify its departure from the Mao's regime on major policy issues. See Chen Donglin, "Wenhua da Geming Shiqi Guomin Jingji Zhuangkuang Yanjiu Shuping" (The State of the Studies on the National Economic Conditions during the Cultural Revolution), *Contemporary China History Studies*, v. 15, n. 2 (March 2008), 63-72. For an analysis of Chinese official appraisal of the Cultural Revolution, see, Lowell Dittmer, "Rethinking China's Cultural Revolution amid Reform," in *China's Great Proletarian Cultural Revolution*, ed. Woei Lion Chong (New York: Rowman & Littlefield Publishers, 2002), 3-26.

¹² Barry Naughton, "The Patten and Legacy of Economic Growth," in *Perspectives on Modern China: Four Anniversaries*, ed. Kenneth Lieberthal, Joyce Kallgren, Roderick MacFarquhar, and Frederic Wakeman, Jr. (New York: M.E. Sharp, Inc., 1991), 226-254.

¹³ Dwight H. Perkins, "China's Economic Policy and Performance," in *The Cambridge History of China*, v. 15, ed. Roderick MacFarquhar and John K. Fairbank (Cambridge: The Cambridge University Press, 1991), 475-539. Some Chinese officials and scholars have also begun to acknowledge China's economic growth during the Cultural Revolution. See, for example, Wu Li, *Zhonghua Renmin Gongheguo Jingjishi* (The Economic History of the People's Republic of China) (Beijing: Zhongguo Jingji Chubanshe, 1999), v. 1, 744-748. Among others, former head of Chinese Statistics Bureau Li Chengrui, veteran economic official Bo Yibo, and historians Hu Sheng and Chen Donglin also argue that Chinese economy achieved some degree of growth during the Cultural Revolution, see Chen, "Wenhua da Geming Shiqi Guomin Jingji Zhuangkuang Yanjiu Shuping."

¹⁴ See, Perkins, "China's Economic Policy and Performance;" Carl Riskin, *China's Political Economy: The Quest For Development Since 1949* (Oxford: Oxford University Press, 1987), 186-194; Barry Naughton, *The Chinese*

Perkins argues that China's economic growth during the Cultural Revolution was mainly built on a high level of governmental investment.¹⁵ Naughton calls it the "big push development strategy."¹⁶ A significant portion of that investment, however, was used to import Western plant and equipment. For example, in January 1973, the government launched an ambitious import plan worth \$4.3 billion.¹⁷ The same year Chinese economic construction achieved the best result during the entire Cultural Revolution era.¹⁸ This dissertation aims to show the connection between China's opening and its economic performance during the Cultural Revolution. It will also explore the meaning of recognition of that connection to the post-Mao leadership's policy choices.

Chinese economist Wu Jinglian describes China's foreign trade expansion in the 1970s as "import substitution." He explains: "at this time, China's purpose for developing foreign trade was not to build an open economy, but rather, to establish an economic system of independence and self-reliance by import substitution."¹⁹ It is a precise summarization of China's intention. However, with increasing contacts with Western businessmen and technicians, more and more Chinese began to realize how backward China's economy was in comparison to Western countries. The Chinese were also becoming familiar with the other economic model across the rigid ideological line. Still facing serious material scarcity over two decades after the founding of the PRC, they questioned the self-proclaimed superiority of the Soviet economic model and the wisdom of absolute self-reliance. Equipped with a widely-shared desire for change and a ready

Economy: Transitions and Growth (Cambridge: The MIT Press, 2006), 77; and Jinglian Wu, *Understanding and Interpreting Chinese Economic Reform* (Mason: Thomson/South-Western, 2005), 293.

¹⁵ Perkins, "China's Economic Policy and Performance."

¹⁶ Naughton, *The Chinese Economy: Transitions and Growth*, 56-59.

¹⁷ Wu, *Zhonghua Renmin Gongheguo Jingjishi*, v. 1, 709-716.

¹⁸ *Ibid.*, 679.

¹⁹ Wu, *Understanding and Interpreting Chinese Economic Reform*, 293. Carl Riskin shares Wu's point of view. See, Riskin, *China's Political Economy*, 207-209.

alternative, the post-Mao leadership was able, therefore, to change the course of the Cultural Revolution rapidly and successfully.

Moreover, to pay for its large amount of imports from the West, China had to expand its exports to the West. It had to study the characteristics of the capitalist world market and adjust its products accordingly. In the process, markets began to make inroads into China's planned economy. This dissertation aims to show how the means (expansion of foreign trade) gradually overtook the ends (self-reliance/sufficiency) and transformed China's relationship with the world economy.

The third theme of this dissertation is about the significance of the resumption of Sino-American trade to the unfolding of the Cold War. The Cold War was characterized by the competition between two opposing economic systems: the market economy and the planned economy. Both the United States and the Soviet Union claimed that their models represented the higher modernity. After World War Two, they competed for influence in the so-called Third World, promising that former colonies and semicolonies could achieve national independence and strength by following their models for development. In its first decade, the PRC celebrated the superiority of the Soviet model and solely depended on Soviet technologies to develop its industries. In the following decades, however, Sino-Soviet relations deteriorated and a larger percentage of China's imports of equipment and technology began to come from the West. The beginning of this shift was largely out of political and economic expediencies, but it forced China to reassess the merits of American and Soviet models and rethink how to achieve modernization. The resumption of Sino-American trade coincided with China's reorientation towards the West and encouraged China to go further to join the world economy—the one led by the United States. At the end of the 1970s, China not only officially opened to the world but went

on to build a market economy at home. The conversion of China, the largest Third World country, to a market economy greatly strengthened the argument about the superiority and universal applicability of the American development model. Therefore, the development of Sino-American economic relations in the 1970s tilted the balance of the Cold War toward the United States ideologically as well as strategically.

From a traditional perspective of balance of power, some recent publications have made alarmist arguments about the threat of a modernized China to the United States.²⁰ This dissertation will argue otherwise by taking Cold War ideologies seriously. It examines China's switch from a Soviet model to an American model for economic development and argues that China's economic success represented a victory for the United States in the Cold War. Furthermore, China's integration into the world economy indicates its endorsement of the international system that the United States endeavored to defend in the Cold War and afterwards.

By taking ideology into account, this dissertation fits within the ongoing debates in the scholarship of Cold War history. In recent years, new Cold War historians have begun to challenge the realist and revisionist schools' approaches that overemphasize the roles that national security and self-interests have played in shaping international relations.²¹ Odd Arne Westad and other new Cold War historians contend that ideology was a critical factor that shaped the course of the Cold War. Westad argues that the United States and the Soviet Union vied to shape the world in their own images. He explains that the Cold War in the Third World

²⁰ See, for example, Richard Bernstein and Ross H. Munro, *The Coming Conflict with China* (New York: Knopf, 1997) and Bill Gertz, *The China Threat: How the People's Republic Targets American* (Washington, DC: Regnery Publishing, 2000).

²¹ See, for example, John Lewis Gaddis, *We Now Know: Rethinking Cold War History* (New York: Oxford University Press, 1997); Chen Jian, *Mao's China and the Cold War* (Chapel Hill: University of North Carolina Press, 2001); Michael Mandelbaum, *The Ideas that Conquered the World: Peace, Democracy, and Free Market in the Twenty-first Century* (New York: Public Affairs, 2002); Odd Arne Westad, *The Global Cold War: Third World Interventions and the Making of Our Times* (Cambridge: Cambridge University Press, 2005); and Melvyn P. Leffler, *For the Soul of Mankind: The United States, the Soviet Union and the Cold War* (New York: Hill and Wang, 2007).

was “over the very concept of European modernity,” to which Washington and Moscow “regarded themselves as successors” and “needed to change the world in order to prove the universal applicability of their ideologies.”²²

Westad believes that ideological impulses drove the United States and the Soviet Union to persistently intervene in the Third World in the 1970s. However, the two superpowers’ Third World interventions largely failed to achieve their ideological goals. According to Westad, these interventions caused prolonged civil wars and intensified the resentment toward both capitalism and communism in many Third World countries. One of the legacies of these interventions is the rise of religious fundamentalism, which has become a key source of instability in today’s world. However, U.S. Third World policies did not all end up in failure. This dissertation provides the unique case of China, where America’s patient economic engagement beginning in 1971 facilitated China’s transformation into a market economy and its integration into the world economy.

This dissertation uses primary sources from both China and the United States. The Chinese sources are relatively scarce. Fortunately, the Guangdong Provincial Archives has recently opened to the public. Guangdong was the province where Chinese foreign trade was most active. Its capital, Guangzhou, hosted China’s largest and the only regular foreign trade fair in the 1970s—the Chinese Export Commodities Fair, or the Canton Trade Fair.²³ This provincial archive has a large number of documents issued by the Ministry of Foreign Trade and many other materials on Chinese foreign trade. Among them are documents that laid out the principles for trading with the United States and that recorded the status of American businessmen’s participation in the Canton Trade Fair. These documents consistently demonstrated China’s

²² Westad, *The Global Cold War*, 4.

²³ It began in 1957 and opens twice a year since then. The spring fair was usually from April 15 to May 15 and the autumn Fair was usually from October 15 to November 15.

eagerness to expand trade with the United States. In addition, this dissertation uses memoirs, biographies, and selected works of those who played a role in Chinese foreign trade, such as senior economic planner Chen Yun, Minister of Foreign Trade Li Qiang, Vice Minister of Foreign Trade Yao Yilin, economic official Chen Jinhua, and Head of Chinese Liaison Office in Washington Huang Zhen.²⁴

American primary sources are very rich on this subject. In 2008, *Foreign Relations of the United States* published the third volume on U.S. relations with China between 1973 and 1976, thus completing the set that covers from 1969 to 1976.²⁵ More unpublished materials are found in the National Archives at College Park, Maryland, the National Security Archives, and the presidential libraries of Gerald R. Ford and Jimmy Carter. It is worth noting that the telegrams exchanged between American diplomatic posts in Paris, Hong Kong, and Beijing and the Department of State provide extremely detailed reports on Sino-American trade. Many of these telegrams are now available online at the website of the National Archives. Records of the NCUSCT from 1973 to 1988 also are available in the Ford Presidential Library in Ann Arbor, Michigan. In addition, the diaries of the first two Heads of the U.S. Liaison Office in Beijing, David K.E. Bruce and George W. Bush, have been published.²⁶ When Bruce set out for China, he stated that the main business of his office was to oversee American trade with China while the

²⁴ See, for example, Chen Yun, *Chen Yun Wenxuan* (Selected Work of Chen Yun), v. 3, 2nd edition (Beijing, Renmin Chubanshe, 1995); Zi Ding, *Li Qiang Zhuan* (The Biography of Li Qiang) (Beijing: Renmin Chubanshe, 2004); Fan, Zhonghui et al. comp., *Jiangjun, Waijiaojia, Yishujia—Huang Zhen Zhuan* (General, Diplomat, Artist—The Biography of Huang Zhen) (Beijing: Zhongyang Wenxian Chubanshe, 2007); Chen Jinhua, *Guoshi Yishu* (Memoirs of Chen Jinhua) (Beijing: Zhonggong Dangshi Chubanshe, 2005); and Yao Jin, *Yao Yilin Baixi Tan* (Interviews with Yao Yilin) (Beijing: Zhonggong Dangshi Chubanshe, 2008).

²⁵ The three volumes are v. 17, v. 18, and E-13.

²⁶ Jeffrey A. Engel ed, *The China Diary of George H. W. Bush: The Making of A Global President* (Princeton: Princeton University Press, 2008); Priscilla Roberts ed., *Window on the Forbidden City: The Beijing Diaries of David Bruce, 1973-1974* (Hong Kong: University of Hong Kong, 2001).

White House was to handle more serious political business.²⁷ Therefore, those diaries naturally touch on many trade issues.

Soon after the Nixon Administration began to relax trade restrictions on China, American academics started to publish books to speculate on the prospect of the Chinese market or to sum up the experience and lessons of the pioneers of that resumed trade.²⁸ Many of these studies aimed to prepare American businessmen to enter China's increasingly open market. They focused on analyzing the legal framework of Sino-American trade and discussing practical negotiation skills for dealing with the Chinese. Some of them contain first-hand data from American corporations that traded with the PRC and include interviews with American businessmen who regularly attended the Canton Fair in the 1970s. For instance, John W. DePauw, who published *U.S.-Chinese Trade Negotiations* in 1981, mailed a questionnaire to 192 U.S. companies that traded with China between 1970 and 1979 and received 112 usable responses. He also accessed the records of the Control Data Corporation that exported computers to China in the 1970s.²⁹ Rosalie L. Tung, who published *Sino-American Trade Negotiations* in 1982, surveyed 138 U.S. firms that negotiated with the Chinese and interviewed several American executives.³⁰ This dissertation also will make use of these publications.

In organization, this dissertation divides into four chapters that cover the period from 1969 to 1977 and a final section that briefly takes the story to the establishment of MFN in 1980 and provides some concluding generalizations. The first chapter examines the gradual U.S. relaxation of its total embargo on China and China's response to the U.S. trade initiatives from

²⁷ "Assignment in Peking," *Time*, May 28, 1993.

²⁸ See, for example, David C. Buxbaum, "American Trade with the People's Republic of China: Some Preliminary Perspectives," *Columbia Journal of Transnational Law* 12, no. 1 (1973): 39-55; Patrick M. Boarman, *Trade with China; Assessments by Leading Businessmen and Scholars*, (New York: Praeger, 1974); and Alexander Eckstein, "China's Trade Policy and Sino-American Relations," *Foreign Affairs* 54, no. 1(1975): 134-154.

²⁹ De Pauw, *U.S.-Chinese Trade Negotiations*.

³⁰ Rosalie L. Tung, *U.S.-China Trade Negotiations* (New York, 1982).

1969 to early 1972. It discusses how strategic and economic factors complemented each other to make Sino-American rapprochement a reality. It examines Beijing's political environment to explain its seeming indifference to U.S. trade initiatives and provides specific examples to illustrate Beijing's true interest in opening trade with the United States. It also narrates Sino-American negotiations that climaxed in a pledge in the *Shanghai Communiqué* published in February 1972 to facilitate bilateral trade.

The second chapter focuses on American exports to China from 1972 to 1974, including several satellite ground stations, ten Boeing aircraft, an enormous amount of wheat, and eight fertilizer plants. These exports made a jump-start in Sino-American trade, which surprised many China experts at that time. This chapter also examines how American businessmen persevered in pursuit of the China market. It explains the relatively hands-off policy of the U.S. government towards that market and introduces the constraints of U.S. export controls on Sino-American trade. Most importantly, it discusses the reasons for Beijing's aggressive purchase of American goods and its impact on China's economy and politics.

The third chapter examines the institutionalization of Sino-American trade from 1972 to 1974, with a focus on Chinese attempts to expand exports to the United States. It points out that the U.S. and Chinese governments adopted different approaches to stabilize their trade relationship. The United States focused on channeling the flow of market information and clearing legal problems such as U.S. private claims against the PRC. China, however, focused on expanding exports to pay for its imports. It invited an increasing number of American businessmen to attend the Canton Trade Fair, tried hard to adjust its products to meet the demands of the American market, and pressed the United States to immediately begin negotiations on China's MFN status. Their different focuses led to many conflicts and an aborted

settlement of the claims issue. Serious negotiations on the MFN issue never took off. However, economic interaction still made progress. For instance, the U.S. government began to regularly send representatives to the Canton Trade Fair. The NCUSCT, inaugurated in May 1973, visited China in November that year and established liaison with the China Council for the Promotion of International Trade (CCPIT).

The fourth chapter examines the down period in Sino-American trade from 1974 to 1977, when volume plummeted from close to \$1 billion to barely above \$300 million. It analyzes the impact of the status of Sino-American political relations, U.S. export controls, and Chinese domestic politics on Sino-American trade. Most importantly, it demonstrates that the American businessmen were still active in China and the Chinese were still committed to Sino-American trade. The major reason for the decline of Sino-American trade volume was China's lack of foreign exchange to pay for its desired imports. In order to solve that problem, China had to take decisive measures to depart from the Maoist path.

The "Postscript and Conclusion" briefly describes Sino-American political normalization, China's decisive departure from its revolutionary past in December 1978, and its economic normalization with the United States. After December 1978, the pace of Sino-American economic normalization accelerated. In late January and early February 1979, Deng Xiaoping toured the United States, during which the two countries pledged to conclude a trade agreement including granting mutual MFN status. By January 1980, that trade agreement had become official. At last, this dissertation concludes that China's modest economic opening in the 1970s transformed both China's external and internal economic relations from both practical and theoretical perspectives.

CHAPTER 1

From Total Embargo to Economic Engagement

1969-1972

American traders, Rusk, and President Kennedy say they will supply China with food if China makes a gesture, but we will never make any gesture to this bid.

—Chinese Foreign Minister Chen Yi, 1962¹

Both sides view bilateral trade as another area from which mutual benefit can be derived, and agreed that economic relations based on equality and mutual benefit are in the interest of the people of the two countries. They agree to facilitate the progressive development of trade between their countries.

—*Shanghai Communiqué*,

1972²

During the intense negotiations concerning the joint communiqué from February 22 to 26, 1972, Qiao Guanhua, Vice Foreign Minister of China, and Henry A. Kissinger, National Security Advisor of the United States, spent little time on the paragraph on trade. Kissinger confessed that “basically they [exchanges and trade] don't mean anything.” He predicted that the possible amount of bilateral trade would be at most infinitesimal in terms of America’s total economy. He explained to Qiao that the administration of Richard Nixon needed this paragraph to satisfy the American public: A renewed trade relationship was a positive symbol for America’s opening to China. Kissinger also tried to put himself in Chinese shoes to understand Beijing’s worries about the potential impact of Sino-American trade on China’s communist

¹ Quoted in Rosemary Foot, “Redefinitions: The Domestic Context of America’s China Policy in the 1960s,” in *Re-examining the Cold War*, ed. Robert Ross and Jiang Changbin (Cambridge: Harvard University Press, 2001), 272. The Kennedy Administration considered selling medicines and food grains to Mainland China for humanitarian reasons. For details, see Foot, “Redefinitions,” 271-272; and Evelyn Goh, *Constructing the U.S. Rapprochement with China, 1961-1974* (Cambridge: Cambridge University Press, 2005), 49, 53-54; and Shu Guang Zhang, *Economic Cold War: America’s Embargo against China and the Sino-Soviet Alliance, 1949-1963* (Stanford: Stanford University Press, 2001), 245-249.

² *Foreign Relations of the United States (FRUS), 1969-1976*, 17: 815.

society. He dismissed the alleged magical transforming power of trade by flattering the revolutionary spirit of the Chinese people: “We believe that a people who has suffered and fought what you have in the last 50 years, who have been on the Long March are not going to be...bought by a businessman from Hong Kong.” Qiao did not have much to say, except that the two parties had to settle the wording on the Taiwan issue before they could turn to the discussion on trade. The quick settlement on the paragraph on trade in the late night meeting on February 25 to 26 indicates that trade was not a controversial issue for either side.³ On February 27, China and the United States announced to the world the *Shanghai Communiqué*, which had two versions due to their irreconcilable difference on the Taiwan question. After disruption for over two decades, the communiqué pledged the two governments to “facilitate the progressive development of trade between their countries.”

The Long Freeze

In December 1950, after China entered the Korean War, Washington froze PRC assets within the United States, and imposed a total embargo on China, including bans on trade, shipping, and travel. The United States also persuaded the United Nations (UN) and the Coordinating Committee (COCOM) of the Consultative Group in Paris to impose international economic sanctions against China. When the Korean War ended, the United States continued to press its allies in COCOM to enforce a far stricter control on exports to China than to the rest of the Soviet bloc. While the multilateral China embargo, or so-called “China differential,” dissolved by 1957, the United States insisted on its unilateral embargo for another 14 years.⁴ In 1955 and 1956, China raised the trade issue with the United States during the ambassadorial

³ *FRUS, 1969-1976*, E-13, document 93[Online version on October 12, 2008, available through the online catalog at <http://www.state.gov/r/pa/ho/frus>].

⁴ For the history of the U.S. embargo and Western restrictions against the PRC, see Shu Guang Zhang, *Economic Cold War*; Cui Pi, *Meiguo de Lengzhan Zhanlue yu Bali Tongchou Weiyuanhui, Zhongguo Weiyuanhui, 1945-1994* (American Containment Strategies, and COCOM, CHICOM) (Beijing: Zhonghua Shuju, 2005).

talks, but did not receive a positive response.⁵ For most of the 1960s, neither side felt any urgency to take initiatives to thaw their frozen relationship.

The Role of Strategic Factors in the Rapprochement

By the end of the 1960s, changes in international relations created favorable conditions for the PRC and the United States to reduce their differences and find common ground. In 1969, the Sino-Soviet split escalated into sizable military engagements in border areas. On the one side, the United States could not resist the temptation to play the “China card” against its chief rival, the Soviet Union.⁶ On the other side, the Chinese leadership came to the conclusion that the Soviet Union was more dangerous to China’s security than the United States and began to contemplate playing the “American card.”⁷ To the dismay of Beijing, however, the Americans wanted to have their mao tai and drink their vodka too.⁸ After Sino-American rapprochement occurred, the United States continued to pursue détente with the Soviet Union. Each step in U.S.-Soviet détente inevitably became a source of distrust in the Sino-American relationship.

If the Soviet threat was the common language in which the two governments could start an earnest conversation, Taiwan and Vietnam were the hurdles for Washington and Beijing to overcome in order to realize the rapprochement. First of all, Beijing insisted on the centrality of the Taiwan issue in any breakthrough. When Premier Zhou Enlai extended the invitation to Kissinger on May 29, 1971 to visit Beijing, he reaffirmed China’s long-standing position: “It goes without saying that the first question to be settled is...the question of the concrete way of

⁵ Zhang Baijia and Jia Qingguo, “Steering Wheel, Shock Absorber, and Diplomatic Probe in Confrontation Sino-American Ambassadorial Talks Seen from the Chinese Perspective,” in *Re-examining the Cold War*, 182, 184, 187; Steven M. Goldstein, “Dialogue of the Deaf? The Sino-American Ambassadorial-Level Talks, 1955-1970,” *ibid.*, 210, 216-217.

⁶ Standard accounts of the relations between the Soviet threat and Sino-American rapprochement are found in Schaller, *The United States and China*; and Cohen, *America's Response to China*.

⁷ See Yafeng Xia, “China’s Elite Politics and Sino-American Rapprochement, January 1969–February 1972,” *Journal of Cold War Studies* 8, no. 4 (2006): 3–28.

⁸ Henry Kissinger, *Years of Upheaval* (Boston: Simon & Schuster, 1982), 70.

the withdrawal of all the U.S. Armed Forces from Taiwan and Taiwan Straits area.” In the eyes of the Chinese Communists, the American military presence in Taiwan was a legacy of the century of humiliation inflicted on China by Western and Japanese imperialism. When the U.S. Senate ratified the mutual defense treaty between the United States and the Republic of China (ROC) in Taiwan in February 1955, the Beijing regime immediately denounced it as an attempt to “legalize” the so-called “U.S. occupation of Taiwan.”⁹ For Beijing, this wrong must be rectified before a new relationship could be formed.

Fortunately, the so-called “Nixon Doctrine,” which Nixon first articulated in Guam in July 1969, provided a basis on which the American government could satisfy Beijing’s first (but not last) demand on the Taiwan question without causing unbearable backlash at home. The Nixon Doctrine included three main points. First, the United States would keep its treaty commitments to its allies. Second, the United States would provide a shield to its allies and other concerned nations in case of “the threat of a major power involving nuclear weapons.” Third, as far as other types of aggression was concerned, the United States would “encourage and ...expect” its allies themselves to take the primary defense responsibility.¹⁰

On February 25, 1971, in his second annual State of the World Report, Nixon explained the effect of the “Nixon Doctrine” on the relationship between the United States and the ROC. He stated that the evolution of the U.S.-PRC dialogue should not “be at the expense” of the U.S. “commitment to the security of the ROC,” which stemmed from the 1954 mutual defense treaty. On the other hand, he contended that “maintaining the integrity of commitments requires relating their tangible expression, such as troop deployments or financial contributions, to changing

⁹ John H. Holdridge, *Crossing the Divide: An Insider’s Account of Normalization of U.S.-China Relations* (Lanham: Rowman & Littlefield Publishers, Inc, 1997), 8.

¹⁰ Jussi M. Hanhimäki, “An Elusive Grand Design,” in *Nixon in the World: American Foreign Relations, 1969-1977*, ed. Fredrik Logevall and Andrew Preston (New York: Oxford University Press, 2008), 38-39.

conditions.” By “changing conditions,” Nixon meant that, thanks to the heated Sino-Soviet dispute, “the most prevalent Communist threats now are not massive military invasions.” In short, Nixon hinted at the possibility of reducing American troop deployments in Taiwan while promising to “furnish military and economic assistance when requested in accordance with our treaty commitments.”¹¹

Therefore, during Kissinger’s secret trip to Beijing in July 1971, the Chinese side noticed that Kissinger was straightforward about America’s willingness to withdraw its troops from Taiwan, but was ambivalent about normalization at the cost of the ROC.¹² During his visit in February 1972, Nixon promised Beijing to abrogate the mutual defense treaty and break off official relations with the ROC, in addition to ending the American military presence in Taiwan. However, Nixon and his successor Gerald R. Ford found themselves unable to do more than reducing American troops thanks to the U.S.-ROC mutual defense treaty that enjoyed wide support in the American Congress and society.¹³ After switching recognition from the ROC to the PRC, the United States continued to be committed to the security of Taiwan by the Taiwan Relations Act of 1979. Today Taiwan’s status remains to be decided and continues to be a source of conflict between Washington and Beijing. The Nixon Doctrine thus provided a favorable environment for the U.S. opening to Beijing but at the same time complicated the triangular relationship between the United States, the ROC and the PRC.

The purpose of the Nixon Doctrine, as Nixon put it in Guam in 1969, was to “avoid ...countries... [becoming] so dependent on us that we are dragged into conflicts such as the

¹¹ Congressional Quarterly, *China: U.S. Foreign Policy since 1945* (Washington, D.C.: Congressional Quarterly, 1980), 321.

¹² See Huang Hua, *Qinli yu Jianwen* (Memoirs of Huang Hua) (Beijing: Shijie Zhishi Chubanshe, 2007), 165.

¹³ The strong reaction in Congress to the abrogation of the treaty by the Carter administration illustrated the difficulty that the Nixon and Ford administrations had faced. See, Nancy Bernkopf Tucker, *Taiwan, Hong Kong, and the United States, 1945-1992: Uncertain Friendship* (New York: Twayne Publishers, 1994), 134-136. The defense treaty was replaced by the Taiwan Relations Act in 1979. For a history of the U.S.-ROC defense treaty, see, *ibid.*, 38-40, 51, 122, 127-136.

one...in Vietnam.” Indeed, the Vietnam War awoke the United States to the limits of its power. Many of them shared Nixon’s realization that the United States must use its power more efficiently and welcomed the reduction of American troops abroad, including those in Taiwan.

The urgency to end the Vietnam War led Nixon to promise Beijing more than what he could tell the American public regarding Taiwan. On February 23, in preparation for his second meeting with Zhou, Nixon wrote the following note to himself:

Taiwan-Vietnam=tradeoff

1. Your people expect action on Taiwan

2. Our people expect action on V.Nam

Neither can act immediately—But both are inevitable. Let us not embarrass each other.¹⁴

Although Beijing insisted on separating the two issues, Chairman Mao Zedong did advise the North Vietnamese to accept the U.S. request to include South Vietnam’s President Nguyen Van Thieu in the postwar provisional government. “After rest and reorganization, you can fight again to reach the final victory,” said Mao.¹⁵ The end of the Vietnam War, however, inevitably lessened the urgency for the American government to fulfill its promises regarding Taiwan, which generated many ill feelings between Beijing and Washington.

It is undeniable that the strategic factors played a critical role in U.S.-PRC relations. However, they were a double-edged sword: they motivated the United States and the PRC to seek rapprochement, but also threatened to undo their renewed relationship. Strategic issues were too complex and controversial to be resolved expeditiously. Lacking the emotional charge and strategic weight to the two parties of Vietnam and Taiwan, trade proved to be a convenient early instrument for positive interaction.

¹⁴ Quoted in Margaret Macmillan, *Nixon and Mao: The Week that Changed the World* (New York: Random House, 2007), 245. See also, Mann, *About Face*, 15.

¹⁵ Quoted in Macmillan, *Nixon and Mao*, 271.

The Role of Economic Factors in the Rapprochement

The simplicity of the trade issue made it the ideal place to start the process of thawing the Sino-American hostility. As historian Margaret MacMillan put it, “If Nixon had publicly called on the Chinese to negotiate a new relationship, he ran the risk of a public rebuff from Beijing which could have infuriated American public opinion and damaged American prestige still further.”¹⁶ In contrast, the relaxation of the U.S. embargo on the PRC did not require a response from Beijing to proceed. The unilateral nature of the trade initiatives not only meant low political risk for Washington but also could reinforce the genuineness of Washington’s good intentions to Beijing.

Besides, the U.S. economic opening to China was appealing to the American public and its allies. For one thing, the U.S. embargo on the PRC was ineffective. The American government could no longer prevent other industrialized countries from expanding trade with China.¹⁷ Moreover, the unilateral embargo actually hurt U.S. relations with its allies. Thanks to an increasingly globalized economy, products that U.S. allies intended to export to China sometimes contained American-made components, or were supported by American technologies.¹⁸ To be sure, the United States had various ways to interfere with these types of transactions, which included the COCOM and American Foreign Asset Control laws. However, each intervention became a source of friction between the United States and its allies. Finally, the unilateral U.S. embargo effectively excluded American businessmen from the China market.

¹⁶ Margaret MacMillan, “Nixon, Kissinger, and the Opening to China,” in *Nixon in the World*, 114.

¹⁷ For instance, the British sold two computers and West Germans sold rolling mills to China in 1967, despite US protests. See Oliver. M. Lee, “U.S. Trade Policy toward China: From Economic Warfare to Summit Diplomacy,” in *China's Trade with the West: A Political and Economic Analysis*, ed. Arthur A. Stahnke (New York: Praeger, 1972), 49-50.

¹⁸ For instance, the Viscount aircraft that the British delivered to China in 1963 contained communication equipment produced in Britain by a subsidiary of the American-owned International Telephone and Telegraph. For detail, see Jeffrey A. Engle, “The Surly Bonds: American Cold War Constraints on British Aviation,” *Enterprise & Society* 6, no. 1(2005): 31-39.

Assistant Secretary of State Marshall Green lamented during the congressional hearings on Sino-American relations in 1970 that “a number of friendly nations, notably Japan, Great Britain, West Germany, France, Australia and Canada derive considerable comfort from the fact that they do not have to contend with United States competition in China’s growing trade with the non-Communist countries.”¹⁹ The turning of a blind eye to a promising overseas market for ideological reasons was considered absurd by many American businessmen, who were leading the trend toward a global market economy. The self-inflicted wound was especially hurtful because the unprecedented postwar economic growth in the United States had begun to slow down by the mid-1960s.²⁰ In 1971, the United States registered its first trade deficit since 1893.²¹

Above all, either from a strategic or an economic standpoint, it was unwise to leave a potential economic power outside the world system. As Nixon stated, “800 million Chinese are going to be, inevitably, an enormous economic power” if they would shift their attention from political struggles to economic development. The United States must take the step to help China to move in that direction, because “Mainland China, outside the world community, completely isolated...would be a danger to the whole world.”²² The remainder of this chapter will trace the steps that Nixon took to open trade with China and analyze the reasons for Beijing’s ambivalent response to the U.S. trade initiatives.

“The Largest Small Step in 19 Years”

On June 26, 1969, President Nixon approved National Security Decision Memorandum (NSDM) 17, “Relaxation of Economic Controls against China.” The basic instructions included the following:

¹⁹ Quoted in Lee, “U.S. Trade Policy Toward China,” 67.

²⁰ For America’s economic troubles and its impact on U.S. China policy, see *ibid.*, 67-70.

²¹ U.S. Senate, Committee on Commerce, Subcommittee on Foreign Commerce and Tourism, hearing, *Export Expansion Act of 1971*, 24 January 1972.

²² *China: U.S. Foreign Policy since 1945*, 322.

- (1) Remove the restraints in the Foreign Assets Control regulations upon foreign subsidiaries of U.S. firms on transactions with China that are regarded as non-strategic by COCOM.
- (2) Modify the Foreign Assets Control regulations prohibiting purchase of Communist Chinese goods to permit Americans traveling or resident abroad to purchase Chinese goods in limited quantities for non-commercial import into the U.S.
- (3) Modify the administration of the Foreign Assets Control regulations and Export Controls to permit general licenses for export of food, agricultural equipment, chemical fertilizer and pharmaceuticals.
- (4) Follow these steps, at the earliest appropriate time, by modifying import and export controls in non-strategic goods to permit a gradual development of balanced trade.

Nixon directed the National Security Council (NSC) Under Secretaries Committee, manned with representatives from the Departments of State, Commerce, and Treasury, to work out the details of implementing regulations by July 7.²³

On July 21, 1969, the United States announced that American overseas travelers could hand-carry back \$100 worth of goods of Chinese origin. On December 12, 1969, the United States lifted all restrictions on imports for non-commercial purpose from China and permitted the subsidiaries of American firms abroad to trade with China in non-strategic goods.²⁴ The relaxing of foreign assets control meant less U.S. interference with the trade between a third country and the PRC.

The new regulation was a gesture of good will to both the PRC and U.S. allies. The American press applauded this modest trade liberalization. The *Washington Post* called it the “largest ‘small step’ in 19 years...to relax its embargo on trade with Communist China that was imposed to try to ‘isolate’ that nation.” The *New York Times* called it “the first basic United States initiative towards Peking since the outbreak of the Korean War....” The *Christian Science Monitor* believed it “one thing Peking can scarcely fail to notice. Eventually it could respond in

²³ *FRUS, 1969-1976*, 17: 39-41.

²⁴ *China: US Policy since 1945*, 186, 188. Meanwhile the United States also took steps to liberalize the travel ban against China. On July 21, 1969, six categories of American passport holders were allowed to visit China, including members of Congress, journalists, teachers, scholars with advanced degrees and students still in college, scientists and medical doctors, and representatives of American Red Cross. On March 15, 1971, the United States lifted all restrictions on the use of American passports for travel to China. See *ibid.*, 186, 196.

some measure.”²⁵ American companies immediately took advantage of the move. For example, Hercules Powder advised its subsidiary in Nicaragua to purchase turpentine manufactured in the PRC through Mitsui in Japan because the “parent company cannot find in [the] free world sufficient turpentine to supply [the] local plant.”²⁶

U.S. allies also welcomed this liberalization. They had long-standing complaints about the extraterritorial application of U.S. trade restrictions. Canada was particularly excited because of “the large percentage of Canadian industry controlled by U.S. companies and citizens, and the current talks between Ottawa and Peking to establish mutual recognition.”²⁷ In the weeks after the December announcement, Canadian trade commissioners in Hong Kong found themselves busy introducing the representatives of Canadian subsidiaries of U.S. firms to officials of the China Resources Company, the main buying agency of the PRC in Hong Kong.²⁸

Despite the Canadians’ enthusiasm for this step, they were still uncertain about the prospect of a Sino-American trade relationship. The main reason for their concerns was that it was still not clear if the United States would allow the export of Canadian goods with U.S.-made components. Other U.S. allies had similar concerns. Fortunately, Washington answered them positively on April 29, 1970, by announcing the selective licensing of American-made components and spare parts.²⁹ Three months later, the U.S. Commerce Department approved General Motors’ application for export to the PRC American-made engines incorporated in Italian dump trucks. General Motors also sold earthmoving equipment through some of its

²⁵ Memorandum for the President, “Barriers on Trade with Communist China—Comments of Major Newspaper and Some Senators,” 14 January 1970, RG 59, Central Files 1970-1973, FT 1 CHICOM-US.

²⁶ Turpentine was used to manufacture an insecticide called Toxaphene. See Telegram from American Embassy in Nicaragua to the Department of State, 17 February 1970, RG 59, Central Files 1970-1973, FT 1 CHICOM-US.

²⁷ Canada and the PRC finally normalized relations on October 13, 1970. For Canadian reactions, see telegram from American Embassy in Canada to the Department of State and the enclosed Canadian press clippings, 17 January 1970, *ibid.*

²⁸ Telegram from American Consulate General in Hong Kong to the Department of State, 15 January 1970, *ibid.*

²⁹ *China: US Policy since 1945*, 92.

overseas dealers to China. Its chairman called China a “tremendous and potentially big market.”³⁰

As far as the specific trade initiatives were concerned, Nixon inherited these policy options from his predecessors. The collapse of the “China differential” compelled the administration of Dwight D. Eisenhower to reconsider its unilateral embargo against China.³¹ In fact, since the late 1950s, voices calling for a change of China policy had begun to emerge in the United States.³² As President Lyndon B. Johnson remarked in a nationwide television and radio address on July 12, 1966, “the greatest force for opening closed minds and closed societies is the free flow of ideas and people and goods.”³³ Throughout the 1960s, a virtual consensus came into being in American academic and political circles that the Communist regime in Mainland China was here to stay, and the United States could no longer afford to continue ignoring the existence of the most populated nation in the world. From time to time, recommendations surfaced to relax U.S. travel and trade restrictions against China to break the ice.³⁴ However, these recommendations never became official policy until the Nixon administration.

The American government was preoccupied by the civil rights movement at home and the Vietnam War abroad in the 1960s. Although Washington occasionally showed the will to increase contacts with Beijing, it was not ready to tackle the difficult issue of Taiwan. Without addressing this particular question, Nixon’s predecessors could not receive any response to their signals of good will from Beijing.³⁵ After Mao launched the Cultural Revolution in China in

³⁰ Henry Kissinger, *White House Years* (Boston: Little, Brown and Company, 1979), 697-698; Hedrick Smith, “Peking Said to Have Asked Italians for G.M. Engines,” *New York Times*, July 30, 1970; Chalmers M. Robert, “U.S. Backs Italy’s Sale of 80 Trucks to Peking,” *Washington Post*, 29 July 1970. “G.M. Seeks Toehold in Far East Market,” *New York Times*, 14 April 1971.

³¹ Zhang, *Economic Cold War*, 192-193.

³² *Ibid.*, 174-203.

³³ Quoted in Foot, “Redefinitions,” 272.

³⁴ *Ibid.*

³⁵ *Ibid.*

1966, those in the United States who took notice of what was going on were appalled by the extreme irrational turn of the Maoist regime and the consequent nationwide chaos in China. They lamented that the United States had missed its chance to deal directly with the Maoist regime and pinned their hopes on a future, post-Mao leadership. In February 1968, the Department of State recommended modest relaxation of travel and trade restrictions against China. The Nixon administration later picked up these suggestions. However, the rationale behind these recommendations was to “signal to potential successors to the Maoists that they will have policy options in our regard.”³⁶ In other words, as late as 1968, the American government was not prepared to deal with Mao, not to mention compromising Taiwan’s interests to favor Mao’s regime.

Nixon and Kissinger embraced those trade policy options developed by the previous administrations and went beyond. As early as September 1969, during a conversation with Walter J. Stoessel Jr., American ambassador to Poland, Nixon expressed his wish to “go further and put the Chinese on the same basis as the Soviet Union concerning trade.”³⁷ Furthermore, Nixon and Kissinger prepared themselves to deal directly with Mao’s regime and to take on the tricky Taiwan problem. In an even quieter manner than the announcements of trade relaxations, on November 7, 1969, the United States ended the 19-year presence of its 7th Fleet in the Taiwan Strait. Nixon and Kissinger did not forget to inform Beijing of that move in advance through

36 Memorandum by President’s Special Assistant Walt Rostow, 24 February 1968, *FRUS, 1964-1968*, 30, Document 305 [Online version on October 12, 2008, available through the online catalog at <http://www.state.gov/r/pa/ho/frus>]. This memo was a summary and comparison of the four memorandums on China including Secretary of State Dean Rusk’s “Policy Toward Communist China” of February 22, CIA’s “Communist China’s Troubles and Prospects” of February 22, Alfred Jenkins’ “Thoughts on China” of February 22 and the Academic specialists’ “Memorandum on China Policy” of February 12. The first three memos mentioned above are in *ibid*, Document 302, 302, 304. The fourth one is in Johnson Library, National Security File, Country File, China, Codeword, Vol. II. On January 6 1969, two weeks before President Johnson’s departure from the White House, Rostow recommended to “permit U.S. subsidiaries abroad to sell a limited range of non-strategic goods to China.” Among the three options “approve,” “disapprove,” and “call me,” Johnson checked “call me.” See *FRUS, 1964-1968*, 30, Document 336.

³⁷ Foot, “Redefinitions,” 81.

Pakistan President Yahya Khan.³⁸ By the beginning of 1970, Nixon's initiatives had led to the publicized resumption of the Sino-American talks in Warsaw and the secret opening of the Pakistan channel. Through both channels, Beijing informed Washington that it was willing to receive a high-level envoy from Washington.

Beijing Says No to American Subsidiary Firms

Despite the encouraging development in Sino-American contact-building, Beijing remained silent about trade until April 1970. During this time, Washington had to be satisfied with any clues concerning trade from indirect Beijing-related sources. These indirect sources, however, responded to U.S. trade initiatives in an inconsistent and confusing manner. In the first month after the United States lifted the restrictions on American subsidiaries abroad, it seemed that the main PRC buying agency in Hong Kong, the China Resources Company, responded favorably. The American Consulate General in Hong Kong reported that the trade officials of the China Resources Company were "receptive and interested" when the Canadian Trade Commissioner in Hong Kong introduced to them the local representatives of Canadian subsidiaries of American firms. In January 1970, the China Resources Company even contracted to buy non-ferrous metals and pharmaceuticals from U.S. subsidiary firms. However, in less than a month, it cancelled the two purchases on the ground of "availability elsewhere" and "unacceptable delivery terms."³⁹ It seemed as if the China Resources Company had finally received clear instructions from Beijing not to play ball with the American subsidiaries. After January, it was reported that the China Resources Company "made conscious effort [to] exclude

³⁸ Macmillan, *Nixon and Mao*, 173.

³⁹ Telegrams from American Consulate General in Hong Kong to the Department of State, 15 and 30 January 1970, RG 59, Central Files 1970-1973, FT 1 CHICOM-US, NARA-College Park.

representatives of U.S. subsidiaries from participation at [Canton] Fair and has backed out of business dealings in Hong Kong upon discovering that it was dealing with [a] U.S. subsidiary.”⁴⁰

On March 23, 1970, Chinese interpreter Qian Yongnian (Ch’ien Yung-nien) called on the American Embassy in Warsaw to deliver a message regarding the date for the proposed next formal ambassadorial-level meeting.⁴¹ During this visit, Qian inquired about U.S. agricultural exports to Poland, including the U.S. export credit sales program. A week later, however, Qian rejected the information package that the American agricultural attaché prepared for him.⁴² Qian’s inquiry might only have reflected his personal curiosity, and his rejection of the package could be interpreted as Beijing’s passive response. In a sense, Beijing was playing a game of wait and see. On December 29, 1969, Premier Zhou advised Chairman Mao that, for the time being, the Chinese Foreign Ministry should simply take note of U.S. initiatives for establishing contacts with Chinese ambassadors abroad, instead of explicitly declining them. Mao agreed.⁴³ This policy probably applied to the trade issue as well.

Many Western observers considered Premier Zhou’s April statements to Japanese businessmen as Beijing’s official rejection of trade with American overseas companies. During his meetings with the Japanese Friendly Firm Traders and the Japan-China Memorandum Trade Delegation on April 15 and 19, 1970, Zhou said that China would not deal with U.S.-connected enterprises in Japan. Zhou’s first reference to Sino-American trade caused confusion among American officials, who questioned its authenticity because the Japanese news services omitted it from their English editions. Only the Hong Kong newspapers published the comment. Both the

⁴⁰ Telegram from American Consulate General in Hong Kong to the Department of State, 17 April 1970, *ibid*.

⁴¹ That proposed formal meeting was postponed several times and eventually cancelled after Kissinger’s visit to China in July 1971.

⁴² Telegram from American Embassy in Warsaw to the Department of State, 31 March 1970, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

⁴³ *Zhou Enlai Nianpu, 1949-1976 (A Chronicle of Zhou Enlai)* (Beijing: Zhonggong Zhongyang Wenxian Chubenshe, 1997), v. 2, 341. See also Ma Jisen, *The Cultural Revolution in the Foreign Ministry of China* (Hong Kong: The Chinese University Press, 2004), 327.

American Consulate in Hong Kong and the American Embassy in Tokyo doubted that Zhou would choose the “highly competitive and politically biased” Japanese businessmen as the intermediary to pass this important message. However, their doubts subsided when Zhou repeated his statement four days later at the meeting with the Memorandum Trade Delegation.⁴⁴

American Embassy officers in Tokyo discussed Zhou’s remark with Hashimoto, China Section Chief of the Japanese Foreign Ministry. Hashimoto suggested that what China opposed was not Sino-American trade, but a U.S. attempt to bypass hard political issues in order to open trade with China through Japanese companies. He believed that China had tried to force Washington to deal directly with Beijing in economic as well as political matters.⁴⁵

Hashimoto’s analysis made sense given the principles outlined in Zhou’s statements. These included a denial of trade with U.S.-connected enterprises in Japan, with Japanese companies that were aiding Taiwan against Mainland China or South Korea against North Korea, with Japanese companies that invested heavily in Taiwan and South Korea, and with Japanese companies that provided arms for the American invasions of Vietnam, Laos and Cambodia.⁴⁶ Thus Beijing might have sought to push Washington in a direction that would open the door for high-level negotiations focusing on the uneasy political issues that existed between them, including the ongoing conflict in Indo-China and, above all, the Taiwan issue.

Zhou’s statements, however, were not necessarily intended to be a message to the American government. His rejection of U.S.-connected companies in Japan did not necessarily mean a rejection to all American overseas companies. Since the late 1950s, the PRC and Japan

⁴⁴ Telegram from American Consulate General in Hong Kong to the Department of State, 17 April 14, 1970, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park; Telegrams from American Embassy in Tokyo to the Department of State, 18 and 20 April, 1970, Ibid.

⁴⁵ Ibid.

⁴⁶ Shen Jueren ed., *Dangdai Zhongguo Dui Wai Maoyi* (Foreign Trade in Modern China) (Beijing: Dangdai Zhongguo Chubanshe, 1992), v. 1, 408-409.

had developed a close trade relationship without diplomatic relations. Although America was an important factor, Sino-Japanese relations functioned on their own terms. It seems more likely that Premier Zhou's statements on Sino-Japanese trade were primarily intended to press the Japanese government to accommodate Beijing's political concerns. In fact, when the Chinese government openly permitted trade with American overseas companies in March 1972, it continued prohibiting trade with those in Japan.⁴⁷

When the United States invaded Cambodia to save the Lon Nol regime from the communist insurgency in May 1970, China suspended the Warsaw Talks and resumed harsh anti-American rhetoric. In a very low-key fashion, however, China purchased 80 dump trucks made in Italy but powered by American engines provided by General Motors. According to Kissinger, "The Chinese insisted on the U.S.-made engines as part of the sale, in spite of their professed indifference to U.S. trade and the fact that other engines were available." Kissinger believed that Beijing was testing how serious Washington was about easing relations with China and supported the Commerce Department's approval of this sale against the objection of the Defense Department. Nixon approved the transaction on July 24, 1970 and the decision was made public four day later.⁴⁸

The ambiguity of Beijing and uncertainty of Washington gave opportunists a chance. Paul Sjeklocha, Yugoslavia-born American citizen and Californian businessman involved in trade with the Soviet Union and Mongolia, claimed that he traveled to Beijing and discussed trade issues with Chinese officials. He first notified the American Embassy in Moscow of this alleged connection and then tried to sell his story to interested Americans at home. According to his account, his China adventure began with a "Four-Point Program" that he submitted to Beijing

⁴⁷ Chinese Ministry of Foreign Trade, "Guanyu Zhongmei Maoyi Wenti" (On the Issue of Sino-American Trade), 22 March 1972, 324-2-117, Guangdong Provincial Archives, Guangzhou, China.

⁴⁸ See footnote 30.

in July 1969 via a Canadian connection. The “Four-Point Program” included trade, tourism, banking and shipping. He claimed that Beijing reciprocated his overture with samples of silk, which he showed to New York clothing manufacturers. According to him, the manufactures expressed interest to purchase substantial quantities of the Chinese silk. It seemed that neither party was concerned with the still effective U.S. embargo on the PRC. Then in February 1970, he allegedly traveled to Beijing by rail from Ulan Bator, Mongolia, and discussed the “Four-Point Program” with Chinese trade officials. He reported that China neither accepted nor rejected his program, which he took as encouraging. During this alleged visit, he said he proposed to bring a trade mission to China via Ulan Bator and obtained basic approval from Beijing. He claimed that from December 23 to 26, 1970, he traveled to China, this time via Hong Kong, and further discussed the matters of the proposed trade mission with Chinese officials.⁴⁹

In January 1971, Sjeklocha began to recruit delegates for the supposedly forthcoming trade mission. Eleven thousand prominent American businessmen and China experts received Sjeklocha’s offer of a trip to China for \$6000. In his letter to the potential recruits, he claimed that he had the backing of the U.S. Departments of State and Commerce, the endorsement of many senators and congressmen, and the permission of the Chinese government. Some of those who Sjeklocha contacted must have been convinced and paid \$2,500 deposits for the proposed trip. The truth was, however, that the Department of State was so suspicious of Sjeklocha’s story that it directed the Consulate General in Hong Kong to investigate. The Consulate found no

⁴⁹ See telegrams from American Embassy in Moscow to the Department of State, 9 July and 31 August, 1970; RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park. Jay Mathews, “The Strange Tale of American Attempts to Leap the Wall of China,” *New York Times*, April 18, 1971.

records to prove Sjeklocha's entry into or exit from China via Hong Kong on December 23 or 26. It is probable that Sjeklocha fabricated his contacts with Beijing.⁵⁰

The fact that Sjeklocha went to such lengths to fabricate his connections with Beijing and received positive responses from some contacted Americans illustrated the rising interest in the United States regarding an opening to China. The fact that Sjeklocha could indeed fabricate such a story pointed to the difficulty in communications between Washington and Beijing. It was now apparent that the American government had public support for pushing the liberalization of trade with China further. If the government did not take the lead, a risk existed that disreputable businessmen such as Sjeklocha would teach the Chinese that American traders could not be trusted even before the market officially opened.

A New Page

Uncertainty about Beijing response prevented Nixon from moving faster to remove the embargo. It could be politically disastrous for his administration if Beijing responded to all his unilateral steps with silence or contempt. For most of 1970, Nixon did not have a reliable source to obtain insights into Beijing's position. In the resumed Warsaw Talks in early 1970, the United States expressed its desire to send a high-level representative to Beijing, and China expressed its willingness to receive this potential representative. However, the American invasion of Cambodia disrupted the Warsaw talks, which failed to reopen after the last formal meeting on February 20, 1970. The abrupt ending did not leave any time for the leadership in Washington and Beijing to confirm their mutual intention to talk face to face. On October 25, Nixon sent a message to Beijing via Pakistan President Yahya Khan to repeat the request to send a high-level representative to Beijing. Not until December 8, 1970 did Khan deliver Premier Zhou's

⁵⁰ See telegrams from the Department of State to American Consulate General in Hong Kong, 24 December 1970, 9 and 20 January 1971; and telegrams from American Consulate General in Hong Kong to the Department of State, 12 and 21 January 1971, *Ibid.*; Mathews, "The Strange Tale of American Attempts to Leap the Wall of China."

encouraging reply confirming Beijing's continued interest in easing relations with the United States.⁵¹ With this knowledge, Nixon and Kissinger were confident that it was time to further liberalize trade with China.

On December 29, 1970, Nixon directed the NSC Under Secretaries Committee to prepare recommendations for additional steps to relax U.S. trade restrictions against China. Based on the submitted recommendations, on March 25, 1971, Kissinger presented to Nixon three groups of policy options. Kissinger recommended adopting them in succession. The first group would officially open direct trade with China but place it at a lower level than the Soviet Union in the U.S. export control system. The second group would make China the Soviet equal and the third would put China above the Soviet Union in terms of American export controls.⁵²

The first group became National Security Decision Memorandum 105, which was approved by Nixon on April 13, 1971. NSDM 105 directed "Commencement of a relaxation of controls on direct trade between the United States and China by placing individual items under general license for direct export to the PRC after item-by-item interagency review to determine if they are of strategic significance....Upon the commencement of these limited direct exports, direct imports from China of a similar and correlated nature will be allowed." In short, NSDM 105 directed an end to the U.S. twenty-one year embargo on China, promising a fresh start for Sino-American direct trade.⁵³

⁵¹ See Macmillan, *Nixon and Mao*, 170-171, 173-174, 175.

⁵² *FRUS, 1969-1976*, 17: 282-288; Kissinger, *White House Years*, 712.

⁵³ NSDM 105 also directed further liberalization of travel, shipping, and currency controls against China. It directed to "expedite visas" for Chinese visitors to the United States, allow "U.S. vessels to carry Chinese cargoes between non-Chinese ports," and permit "Chinese use of dollars." On May 7, 1971, U.S. Departments of Commerce, Transportation, and Treasury announced the regulations designed to implement NSDM 105. On June 10, U.S. Department of Commerce issued the list of goods that could be traded with China. On November 22, 1972, the United States announced to lift restrictions against U.S. ships and aircrafts calling at Chinese ports. But China did not open its ports to U.S. vessels until 1979. See *FRUS, 1969-1976*, 17: 297-298; and *China: U.S. Policy sine 1945*, 196, 197, 198, 207, 246, 252.

On the next day, NSDM 105 was made public a few hours after Premier Zhou's warm reception of the visiting American table tennis team in the Great Hall of the People. The American table tennis team and its accompanying journalists constituted the first American group allowed into China in two decades. During the reception, Zhou welcomed more Americans to come to visit China. There was no doubt that this day held promise for a new relationship between the United States and China after twenty years of extreme hostility.

Both governments claimed credit for initiating the opening of this new page. Zhou tactfully implied that China initiated the opening by inviting the American table tennis team. He spoke emotionally during the reception: "In the past, exchanges between the peoples of China and the United States have been very numerous. They have been cut off for a long time. Now, with your acceptance of our invitation, you have opened a new page in the relations of the Chinese and American people."⁵⁴ A few hours later, White house press secretary Ronald L. Ziegler announced the newest liberalization of China trade, calling this liberalization a "new page" and crediting the opening to Nixon. He contended: "there is no question about the fact that the initiatives of President Nixon have turned a new page in our relations with China."⁵⁵

Although U.S. trade liberalization "received top play in the media," this move, as the White House staff observed, "was generally characterized as in response...to the PRC invitation to the U.S. table tennis team..."⁵⁶ Even Ziegler admitted that the timing of the announcement was influenced by China's invitation.⁵⁷ As Kissinger later recalled, the American table tennis team's visit to China "was an international sensation; it captured the world's imagination, aided

⁵⁴ John Roderick, "Zhou Says 'New Page' Has Opened," *New York Times*, April 15, 1971.

⁵⁵ Robert B. Semple Jr., "Nixon Eases China Trade Embargo to Allow Nonstrategic Exports," *New York Times*, April 15, 1971; Don Oberdorfer, "U.S. Seeks Improved Relations," *The Washington Post*, April 15, 1971; Murrey Marder, "White House Sees 'New Page' in China Policy," *ibid.*

⁵⁶ Memorandum, by Theodore L. Eliot, 17 April 1971, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

⁵⁷ See footnote 55.

no little by Chou En-lai's careful stage management.”⁵⁸ Zhou's “New Page” speech headlined major newspapers in the United States and around the World—“the international press went wild,” National Security Council senior staff John H. Holdridge recalled. Holdridge confessed that the NSC staff were “a little put out by being upstaged by Zhou Enlai” because they had worked diligently on the “less spectacular moves,” such as trade and travel relaxations, over the past two years.⁵⁹

The Nixon administration had deliberately followed a low-key manner to announce its unilateral trade relaxations regarding China in order to “minimize public speculation on the implication of these moves.” Washington was not sure how Beijing would respond and thought it unwise to stimulate public debates on the subject at the early stage. Thus it was the State Department instead of the White House that released the news that U.S. overseas subsidiaries were allowed to trade with China in December 1969. Washington registered Beijing's responses to American overtures as “low-key gestures” as well, such as the occasional release of one or two American prisoners in China.⁶⁰ This was probably why the involved American officials were caught off guard by China's sudden taste for publicity.

The phrase “new page” became the most fashionable expression to describe the new development in Sino-American relations. At a press conference on April 23, Secretary of State William Rogers expressed his hope for the “new page” to “become a new chapter” in Sino-American relations.⁶¹ Unaware of Nixon and Kissinger's secret contact with Beijing, Rogers' men pinned their hopes on trade to upgrade Sino-American relations. Just two days after the April 14th announcement, the American Consulate General in Hong Kong reported that China

⁵⁸ Kissinger, *White House Years*, 710.

⁵⁹ John Roderick, “Zhou Says ‘New Page’ Has Opened,” *New York Times*, April 15, 1971; Holdridge, *Crossing the Divide*, 48.

⁶⁰ MacMillan, *Nixon and Mao*, 170, 172.

⁶¹ *China: U.S. Policy Since 1945*, 197.

appeared to be ready to extend visas to the consular officers to attend the semiannual Canton Trade Fair. The source of this news was James Kelvin Sproat, head of Lato Can Capri, Ltd., a U.S.-controlled Hong Kong company. Sproat called on the Consulate General to file the license application for export to the United States edible marine products from Macau and Guangzhou. He expected to be invited to attend the Canton Trade Fair if his application for export was approved by the United States. He mentioned to Robert J. Barnard that he would really need some companies who knew about American Foreign Asset Control regulations and spoke Chinese if he were to go to Guangzhou. Barnard, Foreign Asset Control Representative of the Consulate General, expressed his personal interest in visiting Canton and recommended Alfred Harding, who was fluent in Cantonese and Mandarin. On April 16, the Consulate General reported that Sproat had raised the issue regarding Barnard and Harding's possible trip to Canton to his potential Chinese supplier. The State Department replied on the same day that they should take advantage of this chance to "probe further intentions" of Beijing. Assistant Secretary Marshall Green suspected that Beijing would likely give "favorable consideration" to Barnard and Harding's proposed applications, because otherwise the PRC agents in Hong Kong would not have advised Sproat to pick up the visa forms for Barnard and Harding.

For a few days, a visit by American consular officers to China seemed likely. The prospect deeply disturbed the American Embassy in Taiwan. On April 19, it warned that this potential visit "would be appreciably more disquieting in Taipei than any other measures USG has taken to relax trade and travel restrictions" because the "U.S. officials' visit in whatever guise would be considered as [a] step toward some form of official relationship, and qualitatively different from earlier relaxation gestures."

On April 20, Sproat informed the American Consulate in Hong Kong that the Chinese had advised that Barnard and Harding should “use regular passports,” “go ahead and submit visa applications for consideration in Peking,” and “be prepared to go as private individuals sponsored by Sproat’s company.” However, a background check disclosed Sproat “as having engaged in shady deals in [the] past and as coming close to embarrassing U.S. interests on more than one occasion.” Officials in the State Department who had served in Hong Kong and knew Sproat described him as “thoroughly unreliable.” On April 26, the Consulate notified Sproat that they would not submit visa applications for Harding and Barnard. On April 30, Sproat told Barnard that, according to his Chinese contact, Barnard could submit visa applications on ordinary passports without sponsorship of any company. Although having ruled out the Sproat channel thanks to his ill repute, the Consulate recommended asking retired Foreign Service Officer Harold Jacobson to apply for a visa to attend the Canton Trade Fair in order to further probe Beijing’s intentions.⁶²

The truth is, however, Beijing would not invite either American officials or businessmen to the Canton Trade Fair before Nixon’s visit. Only the president could make a pact with the Chinese government on complicated political matters, which China insisted should precede economic matters. Plus, when Nixon received Beijing’s invitation on April 27, he specifically asked Zhou not to invite any American politicians for the time being.⁶³ Therefore, in terms of trade, the “new page” opened on April 14 was not quite turning into a new chapter as Secretary Rogers hoped—not yet at least.

⁶² Telegrams from American Consulate General in Hong Kong to the Department of State, 16, 20, 30 April 1971; Telegrams from the Department of State to American Consulate General in Hong Kong, 16, 17, 20 April 1971; Telegram from American Embassy in Taipei to the Department of State, 19 April 1971, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

⁶³ Macmillan, *Nixon and Mao*, 182.

The China Trade List

In less than two months after Nixon's April 14 announcement, the United States was prepared to reveal the list of items under the general license for trade with China. This time Nixon wanted to "obtain maximum domestic and international impact." The president told Kissinger: "Don't worry about the leaks, they will only help build the story." He thought it was a good idea for Peter G. Peterson, Assistant to the President for International Economic Affairs, to confer with relevant interest groups a few days before the announcement was made in order to make a useful leak.⁶⁴ The word regarding the list spread quickly. On June 7, 1971, the *South China Morning Post* in Hong Kong reported that the forthcoming announcement would not put China on an equal footing with the Soviet Union, which apparently "created apprehension in [the] U.S. business community" in Hong Kong.⁶⁵

It was a delicate task to make the general list for China trade. If the list was significantly shorter than the one for the Soviet Union, China could feel that it was given second class status and turn down further U.S. initiatives. The disappointed American business interests would criticize the Nixon Administration for the failed opening. If the list was too similar to the one for the Soviet Union, the Soviet government and the Nationalist government in Taiwan would take vehement offense. Complicating matters, the Department of Defense tended to be less generous than the Department of Commerce in terms of China trade for security reasons.

The China trade list announced on June 10 turned out to be not only shorter than the Soviet list, but also shorter than the one recommended by the Under Secretaries Committee. The list recommended by the Under Secretaries Committee contained "95 percent of the items allowed to go freely to the Soviet Union," and was initially approved by Nixon on June 3.

⁶⁴ *FRUS, 1969-1976*, 17: 338 (footnote 8).

⁶⁵ Telegram from American Consulate General In Hong Kong to the Department of State, 7 June 1971, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

However, on June 4, Kissinger suggested shortening the list. He said to Nixon: “You see, the advantage of not going immediately to the Soviet level is it gives you another story whenever you need it.” Nixon accepted Kissinger's advice. By June 10 items such as earth moving equipment, locomotives, petroleum products, copper products, and railroad signal equipment were cut from the original list. The final China trade list contained only about seventy-five percent of the items on the Soviet list. Besides saving another story for the president, the resultant list was also a sop to “some conservative elements” in the bureaucracy “which wanted to restrict this trade severely.” After getting the conservative forces on board, Kissinger’s aides foresaw “no particular problem in bringing the PRC list up to the Soviet level.” In fact, the announcement stated, “the Department of Commerce and other agencies will continue to review our export controls.” For the time being, American companies would be allowed to apply for special licenses for exports of items not on the general license list to the PRC. This point in the announcement was very important because in 1969 “fully one-half of U.S. trade with the Soviet Union was via such special licenses.”⁶⁶

A particularly tricky item to handle in the making of the China trade list was grain. Grain was not on the general license list for the Soviet Union and Eastern Europe. The United States required that at least 50 percent of grain shipments from the United States to the above destinations had to be shipped by American flag vessels. The United States had three options regarding grain sales to China. First, the United States could apply the existing regulations that were imposed on the Soviet Union and Eastern Europe. However, since American flag vessels were still forbidden from calling at Chinese ports, grain sales to China would still be impossible

⁶⁶ *FRUS, 1968-1972*, 17:334-339; Memorandum, by Marshall Green, 9 June 1971, RG 59, Central Files 1970-1973, FT 1 CHICOM-US, NARA-College Park; “Trade,” Nixon Presidential Materials, NSC Files, Box 850, Briefing Book for HAK’s July 1971 Trip—POLO I, *ibid*; and Congressional Quarterly, *China and U.S. Foreign Policy*, 2nd ed (Washington D.C.: Congressional Quarterly, 1973), 94.

because China had no way to meet the 50-50 requirement.⁶⁷ Second, the United States could add grain to the China trade list alone so that China would not have to abide by the 50-50 rule. Yet, this would mean better treatment for China than for the Soviet Union, thus reinforcing “suspicions that improvement in China relations is principally aimed against the USSR.” Third, the United States could take this opportunity to liberalize grain trade by suspending the 50 percent U.S. shipping requirement once and for all. The farmers were very much in favor of the third option, while the labor unions were strongly against it. Peterson, Assistant for International Economic Affairs, strongly recommended the third option. He argued that from the perspective of domestic political gains, “it is better...for Joe Curran [President of the National Maritime Union] to be unhappy than for the American farmers to be unhappy.” Nixon adopted the third option in the June 10 announcement.⁶⁸

As far as imports from China were concerned, their impact on the American market would be negligible in the near future. Therefore, Nixon decided to “permit all imports to enter from China under a general license” and subject these imports to “the tariff rates generally applicable to goods from most Communist countries.” Meanwhile the American government would retain “standby authority for future controls if necessary.”⁶⁹

The gradualist manner of liberalizing trade with China was only tactical. After all, China could obtain most of the restricted goods from U.S. allies. However, the gradual manner of the process enabled the United States to continue to use trade as a probe for Beijing’s intentions, as well a signal of good will to Beijing. On February 14, 1972, a week before Nixon’s historic trip to China, Nixon announced further liberalization. As a result, China was transferred from Country group Z of the Commodity Control List to Country Group Y, which was where the

⁶⁷ See footnote 53.

⁶⁸ *FRUS, 1969-1976*, 17: 127, 131; *China and U.S. Foreign Policy*, 94.

⁶⁹ *Ibid.*

Soviet Union was categorized. Meanwhile, subsidiaries of U.S. firms in COCOM nations were allowed to export strategic goods to the PRC without obtaining a license from the U.S. Treasury Department.⁷⁰ For the rest of the decade, the United States tried to be “evenhanded” in the consideration of extending MFN status to the Soviet Union and China. In 1980, MFN status was finally granted to China, while still being denied to the Soviet Union, completing the third phase of the liberation of trade with China as Kissinger envisioned in early 1971: to move Sino-American trade beyond the level of the U.S. trade with the Soviet Union.⁷¹

China’s Door Opens Half-way

Beijing had no official comment on the American overture of April 14, 1971. Nor would it comment on the release of the China trade list on June 10. In fact, China did not make any overt effort to cultivate a friendly relationship with the American business community until after Kissinger’s second trip to Beijing. It was not until Nixon’s historic visit in February 1972 that Beijing officially extended invitations to a group of American businessmen to attend the 1972 Spring Canton Trade Fair.

Only a week after Nixon’s April 14 announcement, however, Beijing sent out via the Pakistan channel its official invitation to the American president to visit China.⁷² By June 2, Kissinger had received his own invitation to go to Beijing to prepare for Nixon’s trip.⁷³ The CIA surmised that Beijing was “waiting to see whether it would enjoy the same trading privileges as

⁷⁰ *FRUS, 1969-1976*, 17: 652-3; the text of DSDM 155 is available through Digital National Security Archives.

⁷¹ The policies that Kissinger recommended for the third phase did not include MFN. In 1971, Kissinger thought the primary differentiation of U.S. treatment of the Soviet Union and PRC would be different terms of U.S. grain sales to them. However, the issue of grain sale was resolved as early as in the first phase. See *FRUS, 1969-1976*, 17:111, 131.

⁷² President Yahya Khan passed Zhou Enlai’s message, which he received on April 21, to White House on April 27, 1971. See *FRUS, 1969-1976*, 17: 300-301.

⁷³ President Yahya Khan received this message on May 29 and passed it to Kissinger on June 2, 1971. See *FRUS, 1969-1976*, 17: 332-333.

the Soviet Union.”⁷⁴ This could be the case. As the American Consulate in Hong Kong reported on June 4, 1971, “almost all trade approaches locally [by American businessmen] either direct or through experienced and well-connected intermediaries have been politely but firmly rejected by PRC agencies in HK.” The Consulate General hoped that this situation would change “following issuance on June tenth of U.S. commodity trade lists.”⁷⁵ Promising word came from Vienna, however, that Chin Ching-san, Deputy Trade Delegate of China, told a local East-West trader on April 22 that “the PRC was anxious to trade with [the] U.S.” and “if [the] situation were normalized, [the] PRC was ready to purchase a minimum [of] 200 million dollars in goods from the U.S. in [the] first year.”⁷⁶

In its June 4 report, the Consulate General also noted that Chinese trade officials in Hong Kong began to take special measures to prevent re-export of Chinese goods to the United States by a third party. This could be interpreted as the tough line that China adopted on trade with the United States. More likely, however, it indicated that China was getting ready for Sino-American direct trade with the approach of June 10. China differentiated its trade partners by using “a sliding scale in their pricing.” For the same goods, China would charge the First and Second World countries more than the Third World countries, and charge the newcomers more than their old friends. When goods were in short supply, China insisted on favoring their “old friends,” rather than pursuing the highest bidder in terms of allocation. These practices created opportunities for cunning businessmen to make a considerable profit through re-export. The Chinese realized this and tried to stop it. In fact, Chinese trade officials in Hong Kong demanded Chinese goods not be re-exported to either Japan or America. Japan had been trading with China

⁷⁴ *FRUS, 1969-1976*, 17:298 (footnote 4).

⁷⁵ Telegram from American Consulate in Hong Kong to the Department of State, 4 June 1971, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

⁷⁶ Telegram from American Embassy in Vienna to the Department of State, 29 April 1971, *ibid.*

since 1952 and always had a great appetite for Chinese goods. When American businessmen finally entered the China market after Nixon's historic visit in 1972, they found themselves discriminated against in terms of price and allocation of the goods in short supply. Given these facts, the restriction against the re-export to the United States that the Consulate General noted on June 4, 1971, was probably a preparatory step taken by China to integrate the United States into a Chinese trade system marked by political differentiation.⁷⁷

Meanwhile, subsidiaries of U.S. firms found that Chinese trade officials had become increasingly receptive and friendly to them since April 14. It seemed that Beijing was purposefully a step behind in reciprocating Washington's trade initiatives. In just a week after Nixon's April 14 announcement, the American Consulate in Hong Kong reported that a PRC-owned bank invited a U.S. subsidiary to open an account there. It also reported that officials of the Chinese Resources Company expressed great interest in the purchase of American drugs. It appeared that the previous Chinese attitudes toward trade with the United States were beginning to change.

On April 19, 1971 Murray Robbins called on the Consulate General to inform the officers of his meeting with officials of the Bank of Communications—"the communist bank," as referred to by the officers. Robbins was the managing director of Lion Rock Trading Company, a fully owned subsidiary of U.S. firm MEGO International. He had been trying to open a trade channel with the PRC for several months and finally came to the point of closing a purchase contract for \$5-10 thousand worth of toys, which he would sell to Canada. Robbins said that the purpose of this purchase was to get a foot in the Chinese market before other U.S. firms. His

⁷⁷ Telegram from American Consulate in Hong Kong to the Department of State, 4 June 1971, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park; Stross, *Bulls in the China Shop*, 8-9.

lunch meeting with the bank officials was for closing the deal, during which the bank officials invited him to open an account with the bank.”⁷⁸

On April 22 Arthur Patt reported “that [the] PRC [was] again interested in purchasing Schering Corporation’s ‘Garamycin’ for gram negative infections...after a lapse of year from [the] time [the] PRC first inquired about Garamycin through Schering’s Swiss Company, Essex Chemie.” Patt was the managing director of Essex Asia, the Hong Kong subsidiary of Schering Corporation USA. Ting Ko-Chien, General Manager of the China Resources Company told Patt that “he will do everything he can to facilitate a Schering sale.” Ting even asked Patt if he would “accept [an] invitation to attend [the] Canton Trade Fair next fall.”⁷⁹

On May 5 the American Consulate General in Hong Kong reported that China had invited some representatives of U.S.-connected firms abroad to the current Canton Trade Fair. Although none of the invited representatives were American citizens, evidence showed that the Chinese were well aware of the U.S. connections of the invited firms and were serious about buying American-made goods. The invited representatives included Canadians, Australians, Austrians, and British. Their represented firms included Alcan Asia, “over 40 percent American-owned,” Commercial Metals (Europa) of Amsterdam, “a subsidiary of Commercial Metals Company of Dallas, Texas;” and subsidiaries of Monsanto Chemical.⁸⁰

China’s acquiescence in indirect trade with the United States became even more evident after June 10. China National Chemical Import Export Corporation told a Danish merchant “that U.S.-made drugs repackaged without [the] U.S. label could be sold to China so long as the Chinese were not officially informed of this.” Teck Soon Hong, Ltd., a PRC state trading agent,

⁷⁸ Telegram from American Consulate in Hong Kong to the Department of State, 19 April 1971, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

⁷⁹ Telegram from American Consulate in Hong Kong to the Department of State, 22 April 1971, *ibid.*

⁸⁰ Telegram from American Consulate in Hong Kong to the Department of State, 5 May 1971, *ibid.*

indicated “a willingness to quote prices for [the] China-origin goods delivered in Canada for re-export to the U.S., the only proviso being that the PRC not be officially informed of the ultimate destination.” On September 1, 1971, Consul General David L. Osborn reported that certain American-manufactured components provided by General Electric might be included in the British turbines for sale to China. According to the agreement, the American-made parts would be “internal and not visible,” while the highly visible rotors for the turbines would be provided by a French corporation. Osborn noted that neither General Electric nor Beijing sought publicity for this potential sale. As long as Beijing could officially claim ignorance of any U.S. participation, it seemed not to mind at all doing business with the United States indirectly.⁸¹

The release of the June 10 list did not incite too much excitement among the American and local businessmen in Hong Kong. They were waiting for Beijing’s reaction, which they were afraid would not be a warm one. Before the release, local Chinese businessmen and civic leaders had already warned that “a list with [the] China differential would entail a loss of face for the PRC and likely dampen prospects for Sino-U.S. trade.”⁸²

Beijing’s silence concerning America’s newest trade liberalization on June 10, however, was probably not due to Beijing being offended by “a list with [the] China differential.” If it had felt “the loss of face,” it probably would have responded with ridicule and outright rejection. In fact, according to the United Kingdom Mission in Beijing, “the Chinese told the Romanians that they were pleased with the recent trade liberalization.” The reason for their silence was that “at [the] government level nothing fundamental can happen until there is some American move on Taiwan.”⁸³ In Canada and Hong Kong, in response to the approaching American businessmen, Chinese trade officials also persistently cited the Taiwan issue as the major road block to Sino-

⁸¹ Telegram from American Consulate in Hong Kong to the Department of State, 13 July 1971, *Ibid.*

⁸² Telegram from American Consulate General in Hong Kong to the Department of State, 7 June 1971, *Ibid.*

⁸³ Telegram from American Consulate in Hong Kong to the Department of State, 16 June 1971, *Ibid.*

American trade. It was evident that Beijing's official policy at this time was still not to deal directly with American businessmen and American firms.⁸⁴ Given that Kissinger's secret trip to Beijing was less than a month away, it was understandable that Beijing would use every chance to remind Washington of the centrality of the Taiwan issue to future relations.

Quietly, however, Chinese trade officials abroad began to extend their friendship to American businessmen. It was a step forward from their post-April 14 practice of only dealing with non-American representatives of U.S.-connected enterprises abroad. On June 15, Chinese diplomat Yao Jen-liu in Canada told North Carolina business representative Ronald McCowan that if American businessmen were invited to the Fall Canton Trade Fair, they would be "observers only and not be permitted to engage in trade." On June 21 Zhou Enlai told American newsmen that businessmen's application to visit the Autumn Canton Trade Fair would be "considered." Feu Yi-min, an editor of *Ta Kung Pao*, a pro-Communist newspaper in Hong Kong, also stated that some Americans would be admitted to the Canton Trade Fair that fall. In fact, a report dated July 13, 1971 from Hong Kong stated that the "PRC instructions to Communist trade representatives in Hong Kong from mid-May forward have stated that preparations to do business with the U.S. should move ahead, even though Taiwan is a current obstacle to trade." American officers in Hong Kong believed that this explained the new-found friendship between Chinese trade officials in Hong Kong and American businessmen: "[Chinese trade officials] now accept trade literature for forwarding to Peking, while occasionally advising businessmen to 'keep in touch'." Tokyo-based U.S. businessman William E. Connor reported that he was received in a very friendly manner by W.T. Chen of the China Resources Company

⁸⁴ Telegram from American Consulate in Hong Kong to the Department of State, 13 July 1971 *ibid*; "Background paper for discussion with M. Froment-Meurice," 26 June, *ibid*.

during his September visit—“almost too friendly,” he remarked. Chen promised Connor to “do the best” he could to help Connor obtain an invitation to the Autumn Canton Trade Fair.⁸⁵

In the June 10 announcement, China was probably most appreciative of the general license that permitted all imports to enter the United States from China. It was reported that the China National Textile Import Export Corporation “approached [the] Italian silk merchant for a list of customers, including Americans, and agreed to consider financial aid for advertising to boost silk consumption in Europe and [the] U.S.” Furthermore, Mr. Y.Y. Wang, a Hong Kong trader, visited Canada and the United States in late July to “explore [the] market for PRC origin goods.” Wang informed the American Consulate in Hong Kong “that agencies of [the] PRC have asked him to obtain both catalogues and other material that would be useful in developing trade between [the] PRC and U.S.” Consul General Osborn recommended “that [the] Commerce [Department] prepare a kit of basic information for him such as ‘exporting to the United States’ issued by the U.S. Department of Treasury, Bureau of Customs and the texts of the special laws sections 24-34 of that publication.” It was noted that Wang stressed that “no publicity should be given to his visit.”⁸⁶

The above stories demonstrate that the PRC was far from indifferent and passive in welcoming the resumption of Sino-American trade, although Beijing preferred to be perceived that way in the public light. Chinese trade officials had to walk a fine line between demonstrating flexibility to American businessmen and maintaining an official tough stance. This was why different American businessmen often heard different things from the Chinese. For instance, while in September 1971 Connor received encouragement from a Chinese representative about

⁸⁵ Telegram from American Consulate in Hong Kong to the Department of State, 13 July, 10 September 1971, Ibid; “Lubman’s Testimony June 29 (Excerpts): Trade with China,” *China: U.S. Foreign Policy since 1945*, 86.

⁸⁶ Telegram from American Consulate in Hong Kong to the Department of State, 13, 19 July 1971, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

prospects for obtaining an invitation to the Canton Trade Fair, William Rosenthal of the U.S. consulting firm Business International was told by another Chinese official that the “PRC is not going to invite American businessmen to Canton this fall, nor will China do business with Americans.” He echoed the guiding principle for Chinese economic affairs during the Cultural Revolution—“politics always takes precedence over economics”— and cited the specific political obstacles to Sino-American trade in accordance with the official line of the PRC. Connor’s good luck was partly due to the fact that he intended to purchase Chinese goods that were in abundant supply, such as stationery, hardware, and garments, and to sell wood pulp that China highly desired. Moreover, Connor represented a small firm that enjoyed little public attention. In contrast, as Osborn noted, Rosenthal represented a large consulting firm with wide connections with many American companies. This meant that any comment that Rosenthal received from the China Resources Company could become widely circulated.⁸⁷

P.C. Lee’s story best illustrates the skill of the concerned Chinese at upholding the official line while at the same time doing quiet business with U.S.-connected firms. Hong Kong native P. C. Lee was a partner of American citizen John Shoemaker in General Resources, a trading company in Hong Kong. Around the time of the 1971 Spring Canton Trade Fair, the Continental ORE Corporation entrusted General Resources to purchase antimony and fluorspar from China. Lee apparently obtained an invitation to attend the Canton Trade Fair via the China Resources Company. However, a staff member of China Resources raised the issue of the heavy American interest in General Resources to Xu Deming (Hsu Te-Ming), the number two official in China Resources. Xu was afraid of trouble and tried to discourage Lee from attending the Canton Trade Fair. Having failed in his deterrence of Lee, Xu contacted his superior, Ding Gejian (Ting Ko-Chien), who was in Beijing at this time. Ding responded that it was okay for

⁸⁷ Telegram from American Consulate in Hong Kong to the Department of State, 10 September 1971, *ibid.*

Lee to attend the Canton Trade Fair. After arriving in Guangzhou, Lee received a new set of calling cards stating that he represented “Old Peking Company” instead of General Resources. Lee had previously owned a company known as Old Peking Silk. From this point on, everything went smoothly. Chinese trade officials at the Canton Trade Fair treated Lee with exceptional courtesy and provided him every kind of assistance. Lee also found that the Chinese were willing to bargain, in contrast to their reputation for inflexibility when it came to price. Lee reported that the Chinese had twice lowered quotations on Antimony and fluorspar in order to close the deal. As Lee commented, it seemed that “[the] upper echelons [of] China Resources, with knowledge and support [from] Chou En Lai, are attempting [to] get Sino-U.S. trade moving but [the] lower echelons are in the position [to] cause trouble.”⁸⁸ Lee’s comment indicated the difficulty that the Chinese leadership faced in communicating the historic change of their American policy to the “lower echelons” of the government, the party, and the general public. Lee’s comment also raised a crucial question: what were the pros and cons of trading with the United States in the eyes of the concerned Chinese after two decades of hostility?

Making Sense of China’s Slow Opening

It was not easy for Beijing to justify its political and economic opening to the United States to the Chinese people. The Beijing regime had never been shy about publicizing its hostility towards the United States. Huang Hua, the first PRC Ambassador to the United Nations, noticed an interesting poster on a bank window across the street from his temporary office in the Roosevelt Hotel two days before his first Christmas in New York City. The poster read: “Regards to the Chinese Delegation—from American Imperialist Running Dogs.” Huang Hua and his staff thought it was hilarious that these Americans admitted to being “running dogs.”⁸⁹

⁸⁸ Telegram from American Consulate in Hong Kong to the Department of State, 11 May 1971, *ibid.*

⁸⁹ Huang, *Qinli yu Jianwen*, 188.

The Chinese, however, were not joking when they called Americans “running dogs” and other derogatory terms. Huang recalled in his memoir that prior to his departure to the United Nations, he heard that a high level Chinese official in the Ministry of Foreign Affairs was opposed to sending the delegation to the United Nations, unless it reversed the resolution passed during the Korean War stating that China was the aggressor in this conflict. Mao Zedong had to use the friendship of the Third World to justify China’s return to the U.S.-dominated United Nations, commenting: How could you not go?—the Third World sent over a sedan chair along with their invitation!⁹⁰ It was a time when the only politically correct stance was to combat imperialists and capitalists by denouncing their way of life at home and rejecting their world order abroad.

Anti-American imperialism was part of the struggle between two ideological lines and this struggle was as serious as life-and-death in Mao’s China. In 1962, Wang Jiaxiang, Head of the International Liaison Department of the Chinese Communist Party (CCP), proposed dampening down anti-imperialist propaganda and adopting a more conciliatory foreign policy towards the West, including the United States. Mao denounced Wang as a revisionist and ridiculed Wang’s proposal as “three conciliations and one reduction”—conciliations with imperialists, revisionists, and international reactionaries, and reduction of aid to anti-imperial revolutions abroad. Consequently, Wang made several self-criticisms for his “mistake” and no longer had a say in the making of Chinese foreign policy.⁹¹ It sent a clear message that it was political suicide to talk about conciliation.

⁹⁰ Ibid., 181. Huang Hua was not in Beijing during the debate about if Beijing should immediately send a delegation to the United Nations. He was at his Canadian ambassador post before he flew to Paris to join the rest of the Chinese delegation who were on their way to New York. For more information on the debate, see Ma, *The Cultural Revolution in the Foreign Ministry of China*, 330-332; see also, MacMillan, *Nixon and Mao*, 218.

⁹¹ See Li Jie, “Changes in China’s Domestic Situation in the 1960s and Sino-U.S. Relations,” in *Re-examining the Cold War*, 301-306; Chen, *Mao’s China and the Cold*, 83, 210; Yafeng Xia, *Negotiating with the Enemy: U.S.-China Talks During the Cold War, 1949-1972* (Bloomington and Indianapolis: Indiana University Press, 2006), 123, 271 (endnote 93).

The combative anti-American propaganda only became more excessive during the Cultural Revolution. After all, as Roderick MacFarquhar has written, “the Cultural Revolution was premised on Mao’s idea that Soviet ‘revisionism’ was insufficiently revolutionary in its opposition to U.S. ‘imperialism’.”⁹² Americans who began to visit China in batches in 1971 could not miss the anti-American atmosphere. A forty-foot high billboard proclaiming “Oppose U.S. Imperialism and All its Running Dogs” stood in the Peking Airport until late 1971.⁹³ This kind of propaganda could be found everywhere, even in the guest rooms for top American officials. On Kissinger’s second trip to Beijing in late October 1971, he and his staff found in each room an English bulletin “calling on the ‘people of the world’ to overthrow the American ‘imperialists and their running dogs.’” The offended American guests collected these items and turned them over to the Chinese protocol officer. “He [Kissinger] gave us face by offering the speculation that they [the bulletins] had been left there by the previous party,” Ji Chouzhu later recalled in appreciation.⁹⁴ Having learned the lesson, Premier Zhou personally inspected the accommodations for Nixon and his staff in advance to make sure that there would be no anti-American posters greeting the special American guests.⁹⁵

China’s anti-American propaganda was not only for foreigners but also for the domestic audience. On May 21, 1970, PRC Defense Minister Lin Biao announced the Mao-drafted speech entitled *The People of the World United, To Defeat the American Aggressors and All Their Running Dogs!* to a huge rally, which gathered in the Tiananmen Square to protest the American invasion of Cambodia. In accordance with the spirit of that announcement, the Chinese Central

⁹² Roderick MacFarquhar, *Mao’s Last Revolution* (Cambridge: The Belknap Press of Harvard University Press, 2006), 222.

⁹³ Robert Kleiman, “How Nixon Got to China,” *New York Times*, 1 November, 1971.

⁹⁴ Ji Chaozhu was Zhou Enlai’s English interpreter.

⁹⁵ Holdridge, *Crossing the Divide*, 70-71; Kissinger, *White House Years*, 776-779; Ji Chaozhu, *The Man On Mao’s Right: From Harvard Yard to Tiananmen Square, My Life Inside China’s Foreign Ministry* (New York: Random House, 2008), 238-251.

Philharmonic Orchestra collectively wrote a song—*The People of the World are Destined to Win*. The song went:

The eastward wind is blowing,
 The battle drums are beating,
 Who are on earth afraid of whom in today's world?
 It was not the people that were afraid of American imperialists—
 It was American imperialists that were afraid of the people!
 A just cause enjoys abundant support,
 While an unjust cause finds little support.
 This rule of history is inevitable, inevitable!
 American imperialism is doomed to perish,
 The people of the world are destined to win!

This song was one of the most popular songs of the 1970 in China.⁹⁶ It was only one of millions of examples that show how deeply and completely the Chinese people were taken by the radical anti-American swirl.

In this context, Beijing had to explain why China's opening to the United States was not contradictory to the prevailing anti-imperialist ideology and practice. The Soviet threat was a real consideration and a convenient justification for the political opening. The *Central Committee Politburo's Report on the Sino-American Meetings* drafted by Zhou and approved by Mao on May 29, 1971 sought to unify the thoughts of the party on the political opening. It explained that the opening of Sino-American communications was the “victorious result of our struggles against imperialism, revisionism, and reactionary force,” and the “inevitable outcome of the internal and external crises facing the U.S. imperialists and the competition for world hegemony between the United States and the Soviet Union.” A successful opening could intensify the “competition between the two super powers.” A failed opening, on the other hand, could further expose the “reactionary face” of American imperialism and further enhance “our people's

⁹⁶ Kuang Chen ed., *Wo Men de 1970 Niandai* (Our Times: 1970s) (Beijing, Zhongguo Youyi Chubenshe, 2006), 354. Chinese people were so familiar with this song that they kept reinventing the lyric according to the new themes of the Chinese society. For instance, when internet spread rapidly in China in the 1990s, the song became: The eastward wind is blowing, the battle drums are beating, who should I be afraid of? I am an internet rascal! Most young internet surfers, however, probably no longer knew where the original song came from.

consciousness.” In short, the political opening was for the good of the Chinese people’s anti-imperialist cause.

The friendship between the Chinese and American people became the standard annotation for the increasing contacts between the two countries. Beijing explained its unconventional invitation to the American table tennis team as a goodwill gesture to the American people. The lengths that the Chinese leadership went to emphasize the people-to-people nature of the American team’s visit was extraordinary. During the visit Chinese TV commentators opened the broadcast of each match with the standard celebration of the friendship between the two peoples: “for a long time, friendship has existed between the Chinese and American people...The visit by the American table tennis team will enhance such friendship...” Zhou personally reviewed and revised these media comments.⁹⁷ These comments were purposefully aimed to assure the Chinese audience that the renewed friendship was with the American people, not with “American imperialists,” or the “American capitalist ruling class.” In other words, despite the opening of cultural exchange with the innocent American people, the struggle against American imperialism and capitalism was still in place.

Then why open trade with American capitalists? When later Beijing had to make a statement, it applied the formula of cultural exchange to trade and insisted on the people-to-people nature of the Sino-American trade relationship. But for the most part, Beijing preferred not to talk about it. The contradiction between opening trade with American capitalists and continuing the struggle against imperialism and capitalism was too obvious and too deep to be easily glossed over. After all, cultural exchange did not involve profit, while trade did. In Mao’s China “profit” was the ultimate symbol of the capitalist way of life and thus deadly taboo. Around the time when Mao denounced Wang Jiaxiang’s proposal for a more conciliatory foreign

⁹⁷ Chen Jian, *Mao’s China and the Cold War*, 367 (endnote 108).

policy, he also denounced the use of material incentives to develop the economy as capitalist. The denouncing of profit went to extremes during the Cultural Revolution. For instance, economist Sun Zhifang was purged because he advocated respect for economic laws and acknowledgment of the role of profit in economic development. On August 25, 1966, an article titled *Two Mutually Exclusive Economic Lines* appeared in both *Wen Hui Bao* and *Jiefangjun Ribao*. According to this article, the contrast between the two lines was pure and simple: the socialist one was to rely solely on people's revolutionary spirit to develop the economy, while the capitalist one was to advocate material incentives to stimulate the economy. Thereafter, more and more articles appeared to denounce all sorts of "materialistic" economic policies in agriculture, industry, and commerce.⁹⁸ In accordance with this spirit, the Jiangxi Revolutionary Committee went to extremes to eradicate every sign of capitalism by shutting down "all of the province's cooperative shops and retail outlets" and revoking "the licenses of all private petty trader."⁹⁹

In this atmosphere, the Canton Trade Fair that was devoted to foreign trade became an easy target for the Red Guards.¹⁰⁰ They criticized the fair for worshipping foreign goods and foreign exchange. On April 14, 1967, one day before the opening of the Spring Canton Trade Fair, Zhou Enlai had to fly to Guangzhou to prevent the Red Guards from interfering with it. Zhou assured them that it was for the interests of the Chinese people and other revolutionary people around the world to trade with the capitalists and to earn foreign exchange. He explained that the earned foreign exchanges provided funding for China's socialist economic projects and for China's aid programs to other revolutions around the world. During the peak of the Cultural

⁹⁸ Wu, *Zhonghua Renmin Gongheguo Jingjishi*, v. 1, 649.

⁹⁹ MacFarquhar, *Mao's Last Revolution*, 257.

¹⁰⁰ The Mao-endorsed rebelling youth in the early stage of the Cultural Revolution. The standard account of their story is found in *ibid.*, 102-252.

Revolution from 1966 to 1968, foreign traders at the Canton Trade Fair were forced to study *Quotations From Chairmen Mao* before they could get down to business with Chinese trade representatives.¹⁰¹ In this context, Chinese trade officials and staff were in the teeth of the storm and could be swallowed at any moment for being a suspected capitalist roader. No wonder that during the prelude to the official opening of Sino-American trade, “lower echelons” of trade officials were “in the position [to] cause trouble,” as P.C. Lee observed. During that time, it was safer to be an anti-American and an anti-materialistic leftist.

The question remains: why open trade with American capitalists? But why not? China had been trading with other capitalist countries since the 1950s. In fact, the main source of China’s industrial imports had been U.S. allies since the early 1960s, after the Soviet Union withdrew its economic aid to China. By 1970 seventy percent of China’s foreign trade was conducted with U.S. allies.¹⁰² Even Mao could not dismiss the imports from the capitalist countries as he did to other “capitalist” things. In 1965, Mao said: “[We] need some foreign imports for our industry, such as sophisticated technologies....” Mao had to be aware of the fact that most of these imports would be from capitalist Western Europe and Japan. So he added: “But don’t advertise it.”¹⁰³

The contradiction between Beijing’s ideology and its foreign trade reality was caused by China’s economic reality. The ideal China was supposed to be a fully modernized and fully self-sufficient nation. In the ideal China, everyone’s material needs were perfectly satisfied and no one should be interested in profiting at the expense of others. The real China, however, was

¹⁰¹ “Bainian Guangjiaohui Shengdian,” *Nanfang Daily*, October 15, 2006.

¹⁰² For details, see Shen, *Dangdai Zhongguo Maoyi*, v. 1, 4-5; Liang-Shing Fan, “The Economy of Foreign Trade of China,” *Law and Contemporary Problems* 38, no. 2, Trade with China (1973): 256-258; 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*, Joint Economic Committee, Congress-Session 92-2 (1972) [Online version on March 5, 2008, available through LexisNexis Congressional Research Digital Collection].

¹⁰³ Wu, *Zhonghua Renmin Gongheguo Jingjishi*, v. 1, 572.

poverty-stricken. It had to import foreign grains to feed the masses and foreign machines to sustain socialist economic construction. Economic reality made trading with the capitalists a necessary evil. Confronted by the revolutionary ideology, trading with the capitalists was a point of shame because it indicated that the revolutionary spirit had failed to put the real economic hardship to an end.

Since the founding of the PRC, Chinese leaders struggled to find the road for China to reach its ideal state. When preparing for Nixon's visit, Zhou Enlai briefed his staff on a missed opportunity for the PRC and the United States to become allies. According to Zhou's interpreter Ji, Zhou recalled that, in June 1949, the American government instructed Ambassador Leighton Stuart to convey a message to Mao that the United States was willing to provide the CCP with a long-term low-interest loan of up to \$2 billion. Unfortunately, Stuart's messenger, a Chinese official who had access to Mao and Zhou, was en route to Beijing the day Mao announced that China would "lean to one side," that of the Soviet Union, on June 30. According to Ji, Zhou explicitly mentioned that the Soviet offer of economic aid was only \$300 million.¹⁰⁴ If Stuart did attempt to pass this message to the CCP, he probably acted on his own because no evidence suggests that the American government gave him such instructions.¹⁰⁵ In his briefing, Zhou might have deliberately oversimplified the relations of the CCP with the United States and the Soviet Union in 1949, given the occasion in which he told the story. But the fact that Zhou compared American and Soviet economic offers to the CCP was striking. "This [\$2 billion] was an enormous sum in a country as poor as China," Ji wrote, probably in reflection of something

¹⁰⁴ Ji, *The Man on Mao's Right*, 258. Huang Hua also recalls Stuart's message. According to Huang, Stuart's messenger was Luo Longji, a democratic personage who was going to Beijing (Beijing) to attend the New Political Consultative Conference. Stuart told Luo that as long as the CCP followed a neutral position between the Soviet Union and the United States, the American government would provide economic aid of \$5 billion. Luo arrived in Beijing at the end of June and learned that Mao would soon announce the "lean to one side" policy. So Luo did not mention Stuart's message to Mao, and only until many years after did he tell Zhou about it. See Huang, *Qinli yu Jianwen*, 84-85.

¹⁰⁵ See Xia, *Negotiating with the Enemy*, 26-34.

that Zhou had said to that effect. Zhou's account implied that the CCP in 1949 would have taken the highest bid for China's friendship in order to solve China's enormous economic problems. This implication probably did not reflect the truth in 1949.¹⁰⁶ At least, however, it reflected the serious concerns of the CCP with China's economic conditions. Moreover, Zhou's narrative demonstrated that in 1972 he was clearly interested in economic gains for China from its rapprochement with the United States.

After "leaning to one side," the socialist model for development became the only choice to China. Throughout the 1950s, Mao and his regime were preoccupied by China's economic recovery and development. The Mao-designed "Great Leap Forward," however, only brought China into the Great Famine. The clear failure of such an audacious economic experiment only served to embarrass and frustrate China's great leader. From then on, Mao lost interest in perplexing economic affairs. He shifted his attention to the politics of class struggle and in 1966 launched the Cultural Revolution. The goal of modernizing China was still in place. In theory, class struggles would purify Chinese people's revolutionary spirit, and that purified the spirit would bring about economic miracles. In practice, however, workers, farmers, and everyone else plunged into the political movement and neglected economic construction. As a result, China's economy was at the edge of collapse during the peak of the Cultural Revolution in 1967 and 1968. As Roderick MacFarquhar put it, "the main concern of the average Chinese during these years...was as much physical survival as political survival, most importantly getting enough to eat...."¹⁰⁷ Between 1969 and 1976, the Chinese economy was in a period of slow recovery and

¹⁰⁶ Although the CCP in 1949 showed flexibility in foreign policy, its alliance with Moscow was probably inevitable at that time. In fact, Zhou himself said that "of course we will lean to one side" and that it was "a fond dream of the United States to split China from the Soviet Union." See *ibid.*, 12-42.

¹⁰⁷ MacFarquhar, *Mao's Last Revolution*, 268.

development, so slow that people's basic needs for food and clothes still could not be satisfied.¹⁰⁸

Even if Mao wanted to believe that Chinese steel production could supersede that of the British in fifteen years,¹⁰⁹ there was no way for him to ignore the material scarcity around him. When Mao was in Changsha in the summer of 1971, he took note of the fact that one of his staff members appeared unusually happy. Mao asked her why she appeared to be so happy. She replied by saying that she finally bought one pair of Dacron (chemical fiber) pants after waiting in line for hours. Mao was quite surprised by her response, so much so that later he mentioned it to Zhou. Mao naturally applied to this case his theory of overcoming economic difficulties by boosting human spirit: How can we not make more chemical fiber? Let's give it a hundred percent try, if not two hundred percent. Zhou responded: We don't have the technology yet. We are not capable of making all these chemical fibers. Mao replied: Can we at least buy [the equipment and technology]? Zhou answered: Of course we can.¹¹⁰ This conversation demonstrates a classic example showing the failure of Mao's "continuous revolution" to deliver the promised economic results, and the resultant contradiction between the fanatical anti-capitalist propaganda and China's expanding trade with the West.

America's entry into China's capitalist trading club did not create a new theoretical dilemma for Chinese Communist leaders. It just added to the old one. This dilemma was a quiet but persistent reminder that the Soviet model was a failed experiment in China. For those who still remembered what they had set out to do in 1949, an alternative was needed. In Mao's China, it was not surprising that no one would admit that the Soviet model had failed and the alternative was coming from the West, especially in the midst of a fanatical political movement. Only after

¹⁰⁸ Wu, *Zhonghua Renmin Gongheguo Jingjishi*, v. 1, 739-748.

¹⁰⁹ *ibid.*, 416-417.

¹¹⁰ Chen, *Guoshi Yishu*, 9.

Mao's death and the end of the Cultural Revolution did the new leadership dare to begin a systematical overhauling of the old economic system and to acknowledge China's switch from a planned to a market economy.

However, it should come as no surprise that many Chinese had been questioning the “superiority” of the Soviet economic model to the capitalist one in the 1960s and 1970s. First of all, with the shift of China's imports from the Soviet bloc to the capitalist camp, the concerned Chinese could not avoid realizing the superiority of Western technology and equipment to those developed and manufactured under the Soviet economic system. Even the steadfast Mao had to admit that Western exports were better and cheaper than Soviet and Eastern European ones, and Western capitalist businessmen were more reliable than the socialist traders.¹¹¹ Furthermore, China had been compelled to go to great lengths to expand trade with the West to compensate for the loss of the Soviet and Eastern European market. Export-related production departments endeavored to study the Western market and improve product quality, and adjust product specifications, designs, and packaging according to the demands of the capitalist market. Chinese foreign trade officials began to allow some established international payment methods in order to facilitate trade with the West, rather than insisting on payment upon delivery or receipt as they did when China was primarily trading with the socialist countries. In short, where many Chinese were perplexed by the failure of the Soviet model to deliver the promised modernization and material bounty, a small group of Chinese was becoming familiar with the other economic model across the rigid ideological line. It was no coincidence that, towards the end of the 1970s, those who presided over the economic departments in the 1960s, such as Deng Xiaoping, Chenyun, Li Xiannian, Yu Qiuli, Bo Yibo, and Li Fuchun, played critical roles in ending the economic policy of the Cultural Revolution and beginning a new era of Reform and Opening-up. And this time it

¹¹¹ Wu *Zhonghua Renmin Gongheguo Jingjishi*, v. 1, 571.

was not out of emotionally driven iconic worship that the masses embraced the new revolution of reforms and opening with both arms.

When Nixon announced the first measures to liberalize trade with China in 1969, China had just come out of the worst economic downturn since the Great Leap Forward.¹¹² Beginning in 1970, Zhou had begun to regain some control over China's economy. On March 17, 1970, he addressed the National Planning Conference representatives: "You say that the principle of dealing with imports was: firstly to criticize them, secondly to use them, and thirdly to remodel them. It is wrong. We buy [them] because we want to use [them]. If we do not use them, what do we import them for? You need to revise your principle: firstly to use them, secondly to criticize them, and thirdly to remodel them. If the purpose of importing goods was to criticize [them], how much stuff do we need to import?!"¹¹³ During the national trade conference in October 1970, some people argued that neutral packaging of the commodities for export was politically harmful to "our great socialist nation." Neutral packaging was to package commodities without printing political propaganda on it. Zhou responded angrily: "Is that argument logical? What's the big deal to 'neutrally' package the stuff that we do not need domestically and for which they (capitalist businessmen) are willing to pay a good price? He questioned: "Isn't it the way that trade is conducted everywhere in the world?"

Ultimately, however, Zhou had to justify the practice of "neutral packaging" by protecting China's revolutionary cause and upholding respect for Mao: Packaging commodities for export with quotations from Chairman Mao gave the foreign enemy the chance to use it against us; it was disrespectful to Mao to print the quotations from him on bicycles and

¹¹² The GNP of 1967 dropped 9.9% from 1966, and that of 1968 dropped 9.9% from 1967. 1968 was the only year without an annual economic construction plan since the founding of the PRC. See *ibid.*, 646, 741.

¹¹³ *Ibid.*, 710.

automobiles.¹¹⁴ Zhou also criticized the practice of forcing foreign traders to study Mao's work: trade is trade, businessman is businessman, and how can capitalist businessmen transform our "spirit" into their profit? He explained that the current tolerance of the capitalist traders was for the interests of China: Now let these people come in to trade, they might make some money [from us], but our country has benefited and is growing stronger.¹¹⁵

The fundamental disadvantage of trading with the United States was the implicit challenge that it presented to China's claim of "socialist superiority." China had learned, however, to conveniently ignore this conundrum concerning its trade with other capitalists before starting trade with the Americans. On the other hand, the advantages of trading with the United States were obvious—access to the best available equipment and technology and a potentially enormous market for Chinese exports. This explains why the "upper echelons" of Chinese trade officials, "with knowledge and support [from] Chou En Lai, are attempting [to] get Sino-U.S. trade moving," as P.C. Lee experienced.

By the time of Kissinger's second trip to China in October 1971, Lin Biao, Mao's handpicked successor, had been killed in a plane crash when he tried to flee to the Soviet Union a month earlier. This event challenged the claim that Mao never erred. It inevitably raised questions about the righteousness of Mao's continuous revolution. After Lin's death, Zhou consolidated his power, took steps to rehabilitate the old economic hands such as Chen Yun and Deng Xiaoping, and began to push a more pragmatic economic policy. The new economic leadership consisted of those who led the economic adjustment during the 1960s and preferred to focus on the gains of trade with the capitalists rather than on its ideological impurity. This is the

¹¹⁴ Ibid, 663-664.

¹¹⁵ Ibid., 710.

background of the Chinese perspective when China and the United States announced their official entry into a mutual trade relationship through the *Shanghai Communiqué*.

The Trade Clause in the *Shanghai Communiqué*

Although Beijing did not react directly, the Chinese leadership certainly took note of U.S. trade initiatives. *The Central Committee Politburo's Report on the Sino-American Meetings of May 1971* established eight “basic principles” regarding Kissinger and Nixon’s proposed visits to China. The seventh was on trade: “We will not initiate the question concerning Sino-American trade. If the Americans touch on this question, we will discuss it with them after the principle of American troops withdrawing from Taiwan has been accepted.”¹¹⁶ This principle perfectly reflected the mixed feeling of the Chinese pragmatists towards Sino-American trade: they personally had no objection to it for pragmatic reasons; they could not overtly advocate it thanks to the overwhelming political radicalism at the time. Therefore, the best gesture they could make was a sort of purposeful indifference. This principle directed the subsequent bilateral negotiations culminating in a trade clause in the *Shanghai Communiqué*.

Meanwhile, the Ministry of Foreign Trade began to prepare its employees for the official opening of Sino-American trade. Since early June 1971, it had organized its entire staff to study the minutes of the conversation between Mao and Edgar Snow on December 18, 1970.¹¹⁷ During that conversation, Mao told Snow that he would welcome Nixon to visit Beijing. Beginning in late September 1971, the Ministry of Foreign Trade took measures to sort out the records on Sino-American pending debts that arose at the end of 1950 when the United States imposed the

¹¹⁶ Chen Jian, *Mao's China and the Cold War*, 264.

¹¹⁷ Zi Ding, *Li Qiang Zhuan*, 306; Chinese Ministry of Foreign Trade, “Mao Zhuxi Huijian Meiguo Youhao Renshi Sinuo Tanhua Jiyao” (The Minutes of the Conversation of Chairman Mao with American friend Edgar Snow), 18 December 1970, forwarded by the Central Committee of the CCP on May 31, 1971, 294-24-A2.10, Guangdong Provincial Archives, Guangzhou, China.

total embargo on China.¹¹⁸ In mid-October, it conveyed the spirit of the recent Zhou-Kissinger negotiations to its staff.¹¹⁹ Therefore, although China would not initiate the trade issue with the United States, it was not unprepared for it.

During Kissinger's second trip to Beijing, on October 22, 1971, Kissinger's aid John Holdridge and the State Department representative Alfred L. Jenkins raised the issue of trade to Xiong Xianghui (Hsiung Hsiang-hui), Secretary to Zhou. Jenkins took the initiative to inform Xiong that "we are prepared to enlarge our general list of trade items to the limit of our present laws before the President's visit to China and we are prepared to do that without any conditions." Basically, the United States would put China on equal footing with the Soviet Union. Xiong responded: "Personally, I am not interested in this question." Then, Xiong went to great lengths to emphasize China's self-reliance:

We are most grateful to Khrushchev. Because in acting that way he had enabled us to carry out Chairman Mao's policy of self-reliance even more rapidly. But first of all, we must give thanks to the United States policy of embargo. First it was the United States who imposed embargo on China and then it was Khrushchev who removed Soviet experts and [scraped] agreements, and it was a good thing because we don't care for such things. In this way we have developed even more rapidly.

The next thing that Xiong mentioned, however, was that China in fact did not oppose foreign trade: "While saying self-reliance, we also have trade relations with many countries on the basis of [equality] and mutual benefit and supplying each other what it needs." Because Zhou and Kissinger had not reached an agreement on Taiwan at that time, Xiong soon backed off: "But as for Sino-U.S. trade, at present, conditions are not yet right. This is my opinion, that is why I am not interested in this question." Despite his stated disinterest, Xiong did not mind hearing Jenkins' ideas on this issue:

¹¹⁸ The Chinese Ministry of Foreign Trade, "Guanyu qingcha tong Meiguo qiye jian zhaiwu xuan'an de tongzhi" (An Announcement on the Checking of the Pending Debts with American Enterprises), 20 September 1971, 302-1-290, Guangdong Provincial Archives, Guangzhou, China.

¹¹⁹ Zi Ding, *Li Qiang Zhuan*, 306.

Xiong: ...as to the question of trade, I am not interested. But you can put forward your ideas.

Jenkins: Of course it makes it difficult to express any specific proposals if we are told there is no interest. I would not like to press this matter.

Xiong: What I mean is if you have ideas you can put them forward and if not then it is not necessary for you to speak.

Jenkins: We could offer ideas if there were interest expressed in them but I am not sure it would be fruitful if there is not interest in the subject.

Xiong: It is not necessary that everything will be fruitful. We can exchange views and exchange our ideas. I am willing to listen.

The session broke before Jenkins gave in to put forward the specific ideas to an “uninterested” audience.¹²⁰

Xiong’s declared indifference did not hide his curiosity for what the United States could offer China through trade. In the previous session of the counterpart meetings on October 21, following Jenkins’s discussion on organic farming as an answer to pollution, Xiong suddenly raised a very specific question about the use of fertilizer in America: “We would like to know if you know how much fertilizer, both organic and synthetic you would apply to each acre.” Holdridge answered: “A lot. We are using a great deal in places like Iowa to increase corn yield per acre of land. We have a great corn yield because of this.” Xiong apparently was very interested in this subject, asking: “What kind [of fertilizer]?” Holdridge told him mostly it was nitrogenous. “Chemical,” added Jenkins. Xiong claimed that this subject was “secondary” and he only mentioned it “in passing.”¹²¹ The fact is that China was facing an urgent situation of food shortage in 1970 and 1971. It was only natural for Xiong to be concerned with chemical fertilizer and it was no coincidence that China contracted to buy eight ammonia plants from Pullman

¹²⁰ Memorandum of Conversation, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 87, Country Files, Far East, PRC-Counterpart Talks, NARA-College Park.

¹²¹ Ibid.

Kellogg in 1973.¹²² Chinese officials could emphasize the spirit of “self-reliance” as much as they wanted, but they could not ignore the fact that China lacked self-sufficiency even in basic necessities such as food and clothes.

Although the first counterpart talk on trade appeared to be futile, China began a month later to take overt actions to cultivate good relations with American businessmen. On November 22, 1971, PRC agent Percy Chen in Hong Kong invited to lunch Consul General Osborn, with the purpose of “exploring [the] possibility of developing relations with [the] local American business community.” Chen proposed “inviting some American businessmen to see movies which could help them understand the ‘New China’ and gradually provide them with the background essential to dealing with China today.”¹²³

In early January 1972, President’s Deputy Assistant for National Security Affairs Alexander Haig led an advance party to Beijing to prepare for Nixon’s visit. He informed Premier Zhou that Kissinger would appreciate inclusion of a reference to trade in the joint communiqué. Zhou expressed his understanding: “We understand this proposal and we can...see from American opinion that they are ...attaching importance to this question and this is...an issue that carries weight.” Zhou did not comment on China’s attitude towards the economic opening between the two countries, but emphasized that it was the Americans who wanted it. During the conversation between Mao and Nixon on February 21, Mao sanctioned China’s economic opening to the United States in a most casual manner: “Our side also is bureaucratic in dealing with matters. For example, you wanted some exchange of persons...also trade. But...we stuck with our stand that without settling major issues there is nothing to do with smaller issues. I

¹²² Ammonia is a key compound of nitrogen. See Walter M. Buryn, “Pullman Kellogg: A Case Study,” in *China Trade: Prospects and Perspectives*, ed. David C. Buxbaum, Crossandra E. Joseph, and Paul D. Reynolds (New York: Praeger Publishers, 1982), 288-297.

¹²³ Telegram from American Consulate General in Hong Kong to the Department of State, 23 November, 1971, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

myself persisted in that position. Later on I saw you were right, and we played table tennis.”¹²⁴ Mao did not forget to point out that it was the United States that wanted trade in his passing mention of this issue.

The specific negotiation on trade was left to American Secretary of State William Rogers and Chinese Foreign Minister Ji Pengfei (Chi P’eng-fei). They held their first meeting on February 22. Ji upheld the position of indifference by stating that the amount of trade that the PRC would be willing to carry out with the United States should be “very limited.” The fact that he initiated the subject of Most Favored Nation status, however, disclosed China’s serious interest in trade with the United States. Ji first commented that the U.S. tariffs imposed on the goods from the PRC were “several fold by comparison with those imposed on the goods of trading partners...which enjoy[ed] Most Favored Nation Status.” He then explained that China’s concern was political instead of economic because this policy was “developed when the U.S. and the PRC were hostile.” After he stated that China did not “demand MFN treatment in order to expand trade relations...,” he explicitly pointed out that “a significant expansion of trade would require a change in the U.S. statutes.” On the next day, Ji duly received Rogers’ briefing on MFN and assurance that “MFN Treatment has little effect on the limited number of items the PRC may be interested in exporting to the U.S.”¹²⁵

Ji also tried to make Rogers admit that the United States was asking a favor from China to open trade by emphasizing the fact that “many corporations in the U.S. ...were anxious for trade with the PRC and were pressing the [Chinese] Ministry of Foreign Trade.” “The government might be relaxed about trade,” commented Ji, “but the corporation[s] clearly wanted it.” Only if the American negotiator demonstrated America’s eagerness for trade could the

¹²⁴ *FRUS 1969-1976*, 17: 681-682.

¹²⁵ *FRUS 1969-1976*, 17:753.

Chinese counterpart accept the opening of trade without compromising his gesture of indifference. Rogers, however, insisted that the eagerness of the U.S. corporations had “nothing to do with the government” and repeatedly stated that his government was “relaxed” about trade with China. He pointed out that trade was “important as evidence of the improvement” of the Sino-American relationship, but probably would “have minimal commercial effect” on both sides. Even to the improvement of U.S.-PRC relations, according to Rogers, trade was “not essential.” Therefore, it was “acceptable” if “the PRC decided that it did not wish trade with the U.S.” After several rounds of dancing, at the end of the session, Ji offered to issue invitations to a small number of American companies to attend the Spring Canton Trade Fair. Rogers expressed his pleasure and assured Ji that American business would supply good products and keep their word although they were aggressive.¹²⁶ The frustrating communication between Rogers and Ji was attributable to their cultural differences as well as the nature of diplomacy. Most Americans probably did not understand the subtlety of the Chinese position on economy: the public indifference to economic pursuit did not mean that they did not care about it. Based on China’s public stance, the American government was prepared for the possibility of rapprochement without trade. American negotiators, however, seemed to have sensed what the Chinese were doing and resented letting them have their way.

By February 26 the PRC had officially agreed to open trade with the United States. Ji and Rogers reached an agreement with regard to the nature of the bilateral trade prior to normalization. First, trade should “be conducted through people-to-people channels, with the

¹²⁶ *FRUS 1969-1976*, E-13, Document 91 [Online version on October 12, 2008, available through the online catalog at <http://www.state.gov/r/pa/ho/frus>].

assistance of our respective governments....” Second, trade should “be developed gradually and progressively.” The trade clause was thus added to the Sino-American joint communiqué.¹²⁷

On February 28, a day after the announcement of the *Shanghai Communiqué*, Rogers asked Ji whether the United States could publicize the fact that China would invite American businessmen to the Canton Trade Fair. Ji confirmed that China would invite Americans, but made no comment on publicizing this news.¹²⁸ In terms of trade, it seemed that the American government was more concerned with publicity than substance, while the Chinese leadership wanted the substance but no publicity.

Nonetheless, Sino-American trade officially resumed. Looking forward from February 1972, the prospects for Sino-American trade were at best uncertain. But eventually trade would thrive. On the one hand, American business people, somewhat unsurprisingly, made great efforts to build and maintain contacts with a China still enmeshed in political turmoil. On the other hand, revolutionary China, to the surprise of many China experts in the West, began to respond to American business people in a warm manner. The two forces clicked and moved a symbolic trade relationship on paper to a substantial one in reality.

Kissinger was wrong to indicate that the resumption of trade would be inconsequential. When the strategic factors, including U.S.-Soviet détente, the end of the Vietnam War, and the U.S. commitment to the defense of Taiwan, plus the domestic dramas on both sides, threatened to postpone normalization permanently, it was trade that reinforced the fragile connection between the two countries during the seven-year-long normalization process. Moreover, the thriving of the bilateral economic ties in the later years enabled the United States and the PRC to move beyond expedient cooperation against the Soviet Union and to develop an interdependent

¹²⁷ Ibid., 17:798-799.

¹²⁸ *FRUS 1969-1976*, E-13, Document 107 [Online version on October 12, 2008, available through the online catalog at <http://www.state.gov/r/pa/ho/frus>].

and enduring relationship. Finally, this economic relationship facilitated China's conversion from a planned economy to a market economy. For China, this conversion brought about great prosperity. For the United States, China's economic success represented a powerful testament of the superiority of the American model for development over the Soviet model and thus a remarkable Cold War victory. The Sino-American trade might have been marginal in 1972, but it was the beginning of all these great stories.

CHAPTER 2

China's Shopping Spree: 1972-1974

Prospects for rapid growth in U.S.-PRC trade are poor. The PRC is almost certain to subordinate economic to political considerations.

— Response to NSSM 149, March 24, 1972¹

We still believe that with the progressive development towards normalization of Sino-U.S. relations there will be corresponding development in trade between the two countries.

—Ambassador Huang Hua, September 19, 1972²

In only three years, the U.S. has become China's second most important international trading partner, after Japan.

—*Time*, December 31, 1973³

Despite Beijing's expressed reluctance, the development of Sino-U.S. trade outpaced that of their political relations. Their bilateral trade started with \$5 million in 1971, increased to \$95 million in 1972, and reached \$934 million in 1974.⁴ It was more or less a given that American businessmen would waste no time taking advantage of the opening to China, especially given that in 1971 the United States registered its first trade deficit since 1893.⁵ After the *Shanghai Communiqué* was published, some American companies began to receive Beijing's responses to their initiatives. Soon after, certain American business representatives would travel to Beijing and return home with business contracts.

¹ The Response to NSSM 149, 24 March 1972, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-190, NSSM Files, NSSM 149, NARA-College Park. NSSM 149 was issued on March 10, 1972, in which the President "directed a study of ways in which the statement on trade in the Joint US-PRC Communiqué of February 28, 1972 should be implemented." NSSM 149 is printed in *FRUS, 1969-1976*, 17: 847-848.

² *FRUS, 1969-1976*, 17: 1077.

³ "Great Leap Forward," *Time*, December 31, 1973. If counting Hong Kong as China's "international trading partner," the U.S. was actually the third, after Japan and Hong Kong.

⁴ "US-Chinese Economic Relations," table 1, undated, NLC-26-42-4-21 [electronic records], Jimmy Carter Library.

⁵ Hearings before the Subcommittee on Foreign Commerce and Tourism of the U.S. Senate, *Export Expansion Act of 1971* (Washington: U.S. Governmental Printing Office., 1972), 1.

Washington, itself, did not initiate a forceful campaign to open China's market. When specific issues arose, however, it made great efforts to help the concerned parties to proceed with their deals, such as expediting the issuance of the required export licenses or taking measures to minimize the unwanted publicity. This passive but accommodating attitude was probably what Beijing preferred.

The main driving force behind the Sino-American trade at this stage came from Beijing. From 1971 to 1974, the value of American exports to China surged from zero to \$819 million, as the value of Chinese exports to the United States only increased from \$5 million to \$115 million. The bulk of the imports coming into China from the United States included satellite earth stations, aircraft, fertilizer plants, and, most importantly, wheat and other agricultural goods. Chinese trade negotiators proved to be very businesslike in dealing with their American counterparts. They tended to avoid discussions on political issues such as Vietnam or Taiwan or to let ideology influence the manner in which they conducted themselves.⁶

The change of China's external relations and internal politics explained its surging needs for foreign commodities, while its anticipation of normalization during Nixon's second term probably encouraged its generous purchases from the United States. A more open China demanded better means for international travel and communications. Beijing's very first purchases were of satellite earth stations and long-range aircraft. These purchases were consistent with China's development strategy that emphasized industry over agriculture. From the beginning, the Beijing regime had recognized the importance of high-technology imports to China's modernization. In the 1950s, it imported a deal of technology and equipment from the

⁶ Telegram from American Consulate General in Hong Kong to the Department of State, 24 April 1972, RG 59, Central Files 1970-1973, FT CHICOM, NARA-College Park. See also, Daniel Tretiak, "The Canton Fair: An Academic Perspective," *The China Quarterly*, n. 56 (October-December, 1973), 740-748.

Soviet Union.⁷ The issue was not Beijing's lack of willingness to buy such goods, but its lack of access to them. For China, the opening to the United States promised the opening to the world's best high-technology market. Beijing apparently did not hesitate to test it immediately.

Moreover, Washington's influence in COCOM and its flexible attitude towards the China trade would inevitably encourage other industrialized countries to be more open to China in terms of high-technology exports. As a result, during the early 1970s, China gained unprecedented access to Western technologies as never before.

Yet three-fourths of Beijing's imports from the United States during these years were agricultural goods. A memorandum prepared by the U.S. Office of Economic Research in 1977 pointed out that "the opening of economic relations came at a fortuitous time. China needed grain, cotton, and soybeans in 1973-74 and the United States was the only feasible source...."⁸ In 1972 China suffered the worst drought in more than a decade, which reduced its farm output and created the need for foreign wheat. More significantly, this same year Beijing began to shift its development priority from industry to agriculture. Instead of squeezing the farmers, the government chose to import large quantities of wheat and roll back industrial projects in order to solve the food crisis. Meanwhile, as a measure to increase farm output in 1973, China ordered eight fertilizer plants from the United States. This deal was the largest nonagricultural agreement in Sino-U.S. trade between 1971 and 1978.

Compared to high-technology imports, wheat imports and the adjustment of economic priorities encountered far more opposition within the Chinese government. The disagreement between the leftists and the moderates over economic priorities went as far back as the founding

⁷ For the impact of Sino-Soviet split in 1960 on China's "technological isolation," see Naughton, "The Patten and Legacy of Economic Growth."

⁸ Memorandum prepared by the Office of Economic Research, "US-Chinese Trade Relations," July 1977, NLC-6-8-4-4-9 [electronic records], Jimmy Carter Library.

of the PRC. In the 1960s, when China faced hostilities from both the Soviet Union and the United States, it was difficult to challenge massive defense spending. Fortunately, China's opening to the United States greatly reduced its chance of war in the near future. In this context, the moderates were able to make a better argument to build a more balanced economy with more emphasis on the basic consumer goods such as food and clothing.⁹ The opening of China thus not only brought it further into the world system but also provided room for the moderates to maneuver in their anti-leftist struggles.

Bringing China into the World: the Sales of the Satellite Earth Stations

When asked what he thought was his greatest achievement with Communications Satellite Corporation (COMSAT), General George Sampson answered: "Bringing China into the World." In early January 1972, Haig invited Sampson, Vice President of Operations of COMSAT, to join the technical advance team to China to prepare for President Nixon's visit. His job was to make technical arrangements for the live coverage by American television networks of Nixon's activities in Beijing. In Beijing, Sampson explained to the concerned Chinese about satellite communications, showing them that a "16 foot antenna" at the Beijing airport and "a microwave system" from downtown Beijing would be enough to make it work. He proudly recalled that Premier Zhou showed great interest in the project and specifically came over to talk with him about it. Sampson would later comment about this meeting saying "Who am I that Chou En Lai comes to talk to? That's how high it got in the government." At his advice, the

⁹ See Frederick C. Teiwes and Warren Sun, *The End of the Maoist Era: Chinese Politics During the Twilight of the Cultural Revolution, 1972-1976* (Armonk: M.E. Sharpe, 2007), 51; Wu, *Zhonghua Renmin Gongheguo Jingjishi*, v. 1, 686.

Chinese rented from Western Union International a portable earth station built by Hughes Tool Company, which was airlifted to Beijing in late January.¹⁰

Nixon had been contemplating live satellite telecast of his visit to China as soon as that visit was firmly on his agenda. Being in an election year, he would certainly prefer maximum publicity. At first, however, it was not clear how the Chinese would react to the proposal of bringing American earth stations into China. On September 13, 1971, after a meeting with Ambassador Hang Zhen in Paris, Kissinger reported to Nixon that the Chinese “seemed clearly taken aback” by the suggestion that “a minimum of 100 to 150 press were needed” for Nixon’s trip. He thus “did not raise the issue of the ground station” during that meeting.¹¹

Over a month later, when Kissinger finally raised this issue during his second visit to Beijing, he found that Premier Zhou was quite flexible. Zhou preferred to buy the proposed earth station, but agreed to rent it at Kissinger’s insistence.¹² During Haig’s visit to Beijing the next January, China signed the contract to rent a ground station for \$607,038. During the lease period, as the contract stipulated, the Americans must obtain China’s approval and pay a fee to use the equipment. It was estimated that China would collect about \$500,000 from the American users, which would balance out most of the rental fee.¹³ Haig called it “the most unorthodox legal

¹⁰ Nina Gilden Seavey, “Interview with George Sampson,” 2 October 1985, COMSAT Oral History, COMSAT Legacy Project [Online version December 1 2008, available at http://www.comsat-legacy.org/COMSAT_Oral_History.html]; James M. Naughton, “Nixon’s Visit to China will be Televised Live,” *New York Times*, January 20, 1972.

¹¹ *FRUS, 1969-1976*, 17: 482. China finally accepted 80 press. See *ibid.*, 17:534.

¹² *Ibid.*, 532, 534, 535.

¹³ Shiyun Wei, “Heige Shuai Xianqianzu wei Nikesong Fang Hua Anpai de Jingguo,” in *Xin Zhongguo Waijiao Fengyun* (Winds and Clouds in New China’s Diplomacy) 3, 71-82. The English translation is titled “Haig’s Preparatory Mission for Nixon’s Visit to China in January 1972,” translated by Zhao Han [online version December 2, 2008, available at <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB70/doc26.pdf>]

arrangements conceivable.” However, it “appeared to have satisfied PRC officials” by giving them a sense of sovereignty.¹⁴

Some Chinese later recalled that the radicals had tried to prevent the Americans from bringing in the satellite earth station. In an internal meeting to discuss the concerned issue, Yu Huyong spoke first, saying that China absolutely should not help promote Nixon by renting the ground station to facilitate the suggested live telecast of his visit. Knowing that Yu spoke for Jiang Qing, Mao’s wife, no one in the meeting dared to challenge him. Only after Zhou’s personal intervention did the Ministry of Communications sign the rental contract.¹⁵

According to the original plan, the United States would bring in only one earth station to Beijing and would televise Nixon’s visit to that city.¹⁶ The U.S. government’s enthusiasm for the satellite TV broadcast more than likely intrigued certain Chinese leaders prompting them to respond in December 1971 to RCA Global Communications’ proposal to “establish an earth station in China not only for President Nixon’s visit but also for continued satellite communications.”¹⁷ General Sampson’s presentation on satellite communications in early January 1972 would go on to further Chinese interest in the subject, eventually leading to the purchase of a ground station of their own.

At Beijing’s invitation, RCA’s President Howard R. Hawkins led a four-man mission to China in mid-January and obtained a contract within a week. The contract was worth \$2.9 million and included a transportable earth station to be installed in Shanghai, microwave terminal equipment, and twenty units of a new video-voice system. As Hawkins pointed out, “This

¹⁴ *FRUS, 1969-1976*, 17: 649. See also, Tao Wenzhao, *Zhong Mei Guanxi Sh, 1949-1972*, (A History of Sino-American Relations) (Shanghai: Shanghai Renmin Chubanshe, 2004), v. 2, 348.

¹⁵ Kuang Chen ed., *Wo Men de 1970 Niandai*, 36.

¹⁶ Thomas O’Toole, “U.S. Supplied Station to Give China Links to TV Satellites,” *The Washington Post*, February 6, 1972.

¹⁷ Howard R. Hawkins, “RCA’s Venture in China,” in *Trade with China; Assessments by Leading Businessmen and Scholars*, ed. Patrick M Boarman (New York: Praeger, 1974), 133-138.

transaction marked the first major direct export sale from the United States to the People's Republic after President Nixon liberalized trade relations with that country.”¹⁸

In Beijing, both Nixon and Premier Zhou were excited by the publicity that the satellite TV broadcast brought to the historic summit. On his second day in China, the first thing that Nixon told Zhou was that his daughter in the United States had watched the state banquet of the previous evening live on TV. Zhou commented: “It is a good thing to draw the attention of the people to this trip of the President. It shows that you did not come in vain.” Nixon agreed, “As I said, more people than at any time in the history of the world heard our two speeches live.” Zhou then pointed out that America's earth satellite played a role in it.¹⁹

When Nixon was in Beijing, the RCA engineers and their Chinese assistants speeded up to complete the installation of the ground station in Shanghai. By the time of Nixon's arrival in Shanghai, the station was ready to provide live television transmission. The Chinese must have felt a great sense of pride in being able to provide such a service with their own equipment.

The RCA sale, however, was not settled until March. Satellite earth stations were on COCOM's export control list, so RCA needed COCOM's approval for the sale. When the United States submitted the request, other members of COCOM, especially Japan, were apparently annoyed by “what they saw as the American use of a double standard--selling equipment of advanced technology...but restraining others from doing the same thing.”²⁰ In fact, according to the U.S. mission in Paris, one of the COCOM members deliberately leaked their discussions on the RCA case to “embarrass the U.S.”²¹ Although annoyed, the COCOM member generally welcomed “the less rigid American policy on commerce with China” and expected a major

¹⁸ Ibid.

¹⁹ *FRUS, 1969-1976*, 17: 693.

²⁰ Henry Giniger, “Allies Clear Sale of U.S. Station to China,” *New York Times*, March 4, 1972.

²¹ Telegram from American Mission to COCOM in Paris to the Department of State, 9 March, 1972, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

relaxation of the trade controls on the Socialist bloc. For that reason, the U.S. allies soon cleared the RCA sale.²²

Back home, Kissinger instructed that the United States “should reject any effort to interpret the U.S. sale of the RCA satellite earth station and related equipment to the PRC as a basic change in the U.S. policy on the embargo of strategic communications generally.” For that reason, the United States only approved the sale of the RCA-supplied equipment already in China, including the transportable ground station and two video-voice terminals, but deferred a decision on the sale of eighteen additional video-voice terminals. As a result, the final sale in March was about \$2.5 million instead of \$2.9 million contracted in January. Nonetheless, the RCA sale set precedence for Western exports of communications equipment to China.²³

Joining the Modern Satellite Communications Community

Americans made the arrangements to bring satellite communications to China. They supplied the ground equipment and contacted the International Telecommunication Satellite Consortium (Intelsat) for approval of the use of the satellite facilities.²⁴ Washington thought, and perhaps preferred, that these arrangements would be temporary—only for Nixon’s visit.

Beijing, however, was determined to make the temporary arrangements permanent after witnessing what the satellites could do to open China to the outside world. After Nixon’s visit, the Chinese Minister of Communications invited Sampson to return to China for consultations. With his assistance, the Beijing Telecommunication Bureau hired a satellite channel from the eighty-nation Intelsat.²⁵

²² Giniger, “Allies Clear Sale of U.S. Station to China;” Telegram from American Embassy in Tokyo to the Department of State, 7 March, 1972, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

²³ *FRUS, 1969-1976*, 17: 905 (footnote 5).

²⁴ *FRUS, 1969-1976*, E-13, document 69 [Online version October 12, 2008, available through the online catalog at <http://www.state.gov/r/pa/ho/frus>]. Intelsat controlled the communications satellites.

²⁵ Seavey, “Interview with George Sampson.”

Taiwan was also a customer of Intelsat. As early as China began to set up the earth stations for Nixon's visit, Americans wondered how China would deal with this problem if it decided to stay connected. *The Washington Post* predicted on February 6: "The People's Republic of China will not join Intelsat while Taiwan was a member, but China can easily hurdle that obstacle without loss of face. One way to do it would be to send its message traffic through an agent like RCA or Comsat, which would route it through the Intelsat network."²⁶

But China was actually more concerned with how Intelsat would present the fact regarding its service to both Taiwan and Mainland China than the fact itself. The publications by Intelsat usually included a directory of all the associated earth stations. In the directory, the Shanghai and Taipei stations were respectively listed as "People's Republic of China (Shanghai)" and "Republic of China (Taipei)." This listing indicated two Chinas and was thus unacceptable to Beijing. But China did not choose to retreat from the Intelsat community to avoid the problem. Instead, the Beijing Telecommunication Bureau suggested solving this problem by changing the two entries to "China (Shanghai)" and "China (Taipei)."²⁷

The Chinese first contacted Sampson regarding the issue but found that Sampson did not seem to "understand the significance of this problem." They then decided to bring this issue directly to the attention of the American government. On June 22, 1972, during a counterpart meeting between Chang Wen-chin and Alfred Jenkins in Beijing, Chang raised this issue and asked "whether the United States Government can use its influence to settle this question."²⁸

The U.S. government responded favorably. On June 28, Kissinger personally promised Ambassador Huang Hua to get this issue resolved "in the very near future." He explained that the

²⁶ O'Toole, "U.S. Supplied Station to Give China Links to TV Satellites."

²⁷ *FRUS, 1969-1976*, E-13, document 144 [Online version October 12, 2008, available through the online catalog at <http://www.state.gov/r/pa/ho/frus>].

²⁸ *Ibid.*

American government could only do this “unofficially,” because Intelsat was an international organization. He said that it might “take a month or two so that it looks like an administrative decision and not a government action.”²⁹ To solve the problem, Holdridge, through Bromley Smith, contacted the State Department and COMSAT.³⁰ By August 21, Kissinger had informed Huang that Intelsat’s directory would appear as China requested in its future publications. Since it was supposed to have been done unofficially, Kissinger indicated that the American government would not inform Taiwan until a few days before the changed directory appeared and asked Beijing not to make “further formal efforts” on this issue.³¹ Huang asked how long it would take for the new listing to appear but Kissinger was not completely sure at this specific time. Four days later, Kissinger’s assistant Winston Lord called Huang’s office, noting that the new listing would appear within a month.³²

Meanwhile, China was negotiating with RCA again, this time to upgrade the transportable earth station in Shanghai to permanent status and to set up an additional one in Beijing. The RCA people returned to China in April and concluded the sales negotiations in August. Hawkins recalled that “competing proposals also had been offered by several foreign and American earth station suppliers.” However, Beijing chose to stick with RCA. On August 17, 1972, Hawkins on behalf of RCA, signed two contracts with the China National Machinery Import and Export Corporation (MACHIMPEX) for the proposed Shanghai and Beijing stations, for a total of \$5.7 million.³³

²⁹ *FRUS, 1969-1976*, 17: 1006.

³⁰ See a note from Winston Lord to Alexander Haig, dated 23 August 1972, Nixon Presidential Materials, NSC Files, Box 850, China Exchanges, June 25, 1972-October 17, 1972, NARA-College Park.

³¹ *Ibid.*, 1045.

³² Telephone Conversation, Winston Lord and Miss Shih, Nixon Presidential Materials, NSC Files, Box 850, China Exchanges, June 25, 1972-October 17, 1972, NARA-College Park.

³³ *FRUS, 1969-1976*, 17: 906; Hawkins, “RCA’s Venture in China.”

Within two months, China contracted for two additional satellite earth stations with a Japanese company and Western Union International. Both of them would be installed in Beijing. The Japanese one was nonstandard and set up expediently for the Japanese Prime Minister's visit to China. The other one was standard and the contract was worth \$4 million. Western Union International subcontracted the construction to GTE International.³⁴

In June and August 1973, RCA completed the construction of their two stations in Beijing and Shanghai. According to Hawkins, each station had "the capability for 60 voice-grade circuits plus television transmission" and was "capable of simultaneous operation with four other stations." Furthermore, they could be "readily expanded to much larger capacities." In short, these stations provided "China with the most modern... facilities for expanding the country's direct television, telephone, and data communications."³⁵

By February 1974, GTE International had also completed the installation of its station in Beijing. Through the satellites over the Pacific and the Indian Oceans owned by Intelsat, China became more connected to the rest of the world than ever before. As Hawkins commented, China "made a great leap forward into modern international communications."³⁶

Boeing Enters the China Market

On January 26, 1972, Robert E. Bateman, Vice President of Washington Operations of the Boeing Company, and A. W. Stoffel, Director of International Affairs, appeared before the Senate Committee on Commerce, Science, and Transportation to testify on the *Export Expansion Act of 1971*. Bateman pointed out that Boeing was then "the single largest exporter in the United States." He also stressed the high degree to which this company depended upon foreign trade.

³⁴ "Communications Equipment," *U.S.-China Business Review* 1, no.5 (1974): 13; "Tanaka Peking Visit," *Washington Post*, 10 September 1972; "GTE Unit Get \$4 Million Job," *Wall Street Journal*, November 17, 1972.

³⁵ *Ibid.*

³⁶ *Ibid.*; "Communications Equipment;" "GTE Unit Will Build Earth Link Station," *New York Times*, November 16, 1972.

He explained that in recent years the recession in the domestic aircraft market was so “substantial” that most of Boeing’s commercial sales had been overseas. Of its total aircraft sales, the commercial aircraft exports were 22 percent in 1966, 32 percent in 1970, and 64 percent in 1971. Facing fierce competition from the Soviet Union and other industrialized countries, Boeing asked for governmental assistance in opening new markets in communist countries by such measures as the “removal of trade restrictions against the Communist countries, most favored nation tariff treatment for all nations and Eximbank credit with far less political constraint....”³⁷

When it came to the Communist market, both the Senators and the Boeing representatives at the hearing had China in their sights. To answer Senator Daniel K. Inouye’s questions regarding the climate of the China market, Bateman indicated that Boeing had done the research, and it showed that China would be “a slowly developing market [for] anywhere from five to a hundred aircraft.” Stoffel explained that the Chinese airline had recently purchased some British- and Soviet-made civil aircraft and made an attempt to “fly to Western Europe.” Stoffel was not optimistic about Boeing’s chances, saying that “things are getting late as far as our penetrating the People’s Republic of China market. They are of course reluctant, They are probably reluctant to depend on the Soviet Union but they are also very reluctant to depend on us because they know our predilection of cutting off supplies by use of our export controls whenever something happens....”³⁸

Soon after the hearing, Nixon’s visit to China opened the door for the Boeing Company. The Boeing representatives were among the first American businessmen invited by Beijing to attend the Spring Canton Fair of 1972. They arrived in Guangzhou on April 15 and proceeded to

³⁷ Hearings before the Subcommittee on Foreign Commerce and Tourism of the U.S. Senate, *Export Expansion Act of 1971*, 350-359.

³⁸ *Ibid.*

Beijing on April 17 for negotiations. Five months later, they consummated a contract worth up to \$150 million, including four 707-320B passenger aircraft, six 707-320C convertible transports, spare parts, and ground equipment.³⁹ The delivery of the aircraft began in August 1973 and was completed the next May.⁴⁰ The Boeing sale was the second largest nonagricultural sale in Sino-American trade between 1972 and 1978. It demonstrated the economic meaning of Sino-American rapprochement and set a milestone for the renewed Sino-American trade.

The Boeing sale surprised many China experts in the West who held cautious views about the prospects for Sino-American trade. In September 1971, Professor Victor Li warned about the constraint of U.S. export controls: “it is precisely the technically highly advanced products—such as aircraft...that the United States is least willing to sell to China because of strategic and military considerations.”⁴¹ In May 1972, Sir John Keswick, Chairman of the Sino-British Trade Council, predicted that the Boeing Company would not be able to sell more than one or two jumbo jets to the Chinese. He reasoned that the Chinese, who prided themselves on self-reliance, were not “likely to commit their aircraft industry to the United States at this stage.” Li and Keswick correctly pointed out those unfavorable domestic conditions on both sides for the development of their bilateral trade.⁴² The Boeing sale, however, proved that Sino-American trade could thrive despite these odds.⁴³

³⁹ China signed a separate contract with the United Aircraft for \$20 million of spare parts. So the actual Boeing sale was less than \$150 million.

⁴⁰ “China Buy Signals New Markets,” *Aviation Week & Space Technology*, September 18, 1972; Telegrams from American Consulate General in Hong Kong to the Department of State, 2 June and 29 July 1971, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park; Adron L. Coldiron, “The Boeing Experience in China: A Brief Overview,” in *Doing Business with China: Legal, Financial and Negotiating Aspects* (New York: Law Business, Inc., 1979), 375-380; “Exporting to China: Two Examples of Timing: Boeing and Clark Equipment,” *U.S.-China Business Review* 1, no. 4 (1974): 5.

⁴¹ Quoted in David C. Buxbaum, “American Trade with the People's Republic of China: Some Preliminary Perspectives,” *Columbia Journal of Transnational Law* 12, no. 1 (1973): 49.

⁴² Quoted in *ibid.*, 50.

⁴³ For a detailed discussion on the underestimation of the prospects for Sino-American trade, see *ibid.*, 44-50.

Boeing's road to Beijing illustrated the circumvent trajectory of the Sino-American economic opening. As early as spring 1971, before the United States announced an end to the embargo on China on April 14, China had "expressed a strong interest in the Boeing 707..." to friendly governments. Beijing's option at that point was to obtain the desired aircraft outside the United States. It was reported that James Ryan & Son, a New York brokerage firm, "had made a bid to sell up to 120 U.S.-built jet transports to Red China through third countries."⁴⁴

The lift of the embargo cleared the way for the Boeing Company to cut out the middlemen and reach out to the Chinese directly. It first tried to establish contact with Beijing through American diplomats in countries that had diplomatic relations with China and private intermediaries in Hong Kong.⁴⁵ According to Robert J. Serling, Tex Boullioun, President of the Commercial Airplanes Division, had tried for months to open a channel to China mostly through the American ambassador to Romania.⁴⁶ In early June 1971, the American Consulate General in Hong Kong reported that, in the third week of May, Whitney Howland of the Boeing Company visited Hong Kong but failed to make the desired contact with Beijing. On this trip, Howland did meet James Kelvin Sproat, who offered to help.⁴⁷ On July 29, the Consulate reported that Sproat claimed that his partner, William Leong, had been to Beijing and made contact with "appropriate authorities" on behalf of the Boeing Company.⁴⁸ This claim was never confirmed. In late 1971 and early 1972, the Boeing salesmen continued working on the officials of the China Resources Company, furnishing them "with data and brochures relating to Boeing transports."⁴⁹ Although the Boeing Company would not receive any response from Beijing until a month after Nixon's

⁴⁴ Laurence Doty, "Chinese Jet Bid May Cloud Trade Policy," *Aviation Week & Space Technology*, March 15, 1971.

⁴⁵ Richard Witkin, "Miller—Boeing's Man in Peking," *New York Times*, September 18 1972.

⁴⁶ Robert J. Serling, *Legend and Legacy: the Story of Boeing and Its People* (New York: St. Martin's Press, 1991), 360-361.

⁴⁷ Sproat was an ill-reputed American businessman in Hong Kong. See Chapter I of this dissertation, 37-38.

⁴⁸ Telegrams from American Consulate General in Hong Kong to the Department of State, 2 June and 29 July 1971, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

⁴⁹ "Boeing in China," *Aviation Week & Space Technology*, April 3, 1972.

visit to China, it certainly made Beijing aware of its interest in the Chinese market. On September 28, 1971, Huang Zhen, the Chinese Ambassador to France, told Vernon A. Walters, American Military Attaché to there, that China would “undoubtedly buy U.S. planes” once the relations “were somewhat more normal.”⁵⁰

Beijing announced its economic opening to the United States through the *Shanghai Communiqué* in February 27, 1972, and began to directly deal with American businessmen thereafter. On March 7, Byron H. Miller, Boeing’s international sales director for the Commercial Airline Group, spent 21 cents to mail a letter to MACHIMPEX. Three weeks later, he received “a cable with two invitations, the first to the Canton Trade Fair and the second to a meeting in Peking for a technical discussion on jet transports.”⁵¹ Miller led a team consisting of two salesmen and two technical representatives to China in mid-April 1972 and soon found that China had more than a technical discussion in mind.⁵²

After three days of “intensive discussions” between April 18 and 20, MACHIMPEX representatives “requested that firm proposals including price and delivery terms be presented by Boeing.”⁵³ Miller thus returned to Seattle to “put together specific proposals for sales of up to eight 707s and up to four 747s,” leaving his colleagues to continue the technical discussion in Beijing. On April 25, the Boeing Company notified the American government of China’s “strong

⁵⁰ Vernon A. Walters, *Silent Missions* (Garden City: Doubleday & Company, Inc., 1978), 538. Ambassador Huang and General Walters were the counterparts of the secret Paris channel between Washington and Beijing that played a crucial role in preparing Nixon’s visit to China.

⁵¹ Witkin, “Miller—Boeing’s Man in Peking,” *New York Times*, September 18, 1972; “China’s Shopping Spree,” *Time*, September 25, 1972; Serling, *Legend and Legacy*, 361.

⁵² “Boeing China Visit,” *Aviation Week & Space Technology*, May 1, 1972. Besides Miller, the team initially included Herbert W. Grueter, international sales regional Manager, A. Sidney Hanson, 747 technical requirements manager, and Mark C. Gregoire, 707/727/737 technical requirements manager. A slightly different version says that Boeing sent the letter to MACHIMPEX on March 23 and received the response on April 5. See “Exporting to China: Two Examples of Timing: Boeing and Clark Equipment,” 5.

⁵³ Telegram from American Consulate General in Hong Kong to the Department of State, 24 April 1972, Central Files 1970-1973, FT CHICOM-US, NARA-College Park; Coldiron, “The Boeing Experience in China: A Brief Overview,” 376.

interest” in its aircraft and asked for an advisory opinion.⁵⁴ On May 18, Miller returned to Beijing with the requested sales proposals and five additional people. Soon after Miller’s presentation, the Chinese indicated that they were interested in the 707s.⁵⁵

When the technical discussion in Beijing turned into a sales negotiation, the Boeing Company intensified its effort to obtain an approval from the American government. The government responded favorably but also demanded proof of the civilian nature of this proposed transaction. In a memorandum dated May 19, Harold B. Scott, Assistant Secretary of Commerce for Domestic and International Business, indicated that “a committee of representatives from Defense, State, Commerce, and NASA agreed that Boeing should negotiate with the PRC ‘subject to...(a) The end-use of the aircraft is for regularly-scheduled civilian service; and (b) The only equipment requested would be normal for such regularly-scheduled civilian service.’” On May 26, NSC staff Jim Hackett wrote: “Commerce needs a decision urgently (the Boeing negotiators are now in Peking).” Three days later, Kissinger “approved the negotiations, subject to the two requirements mentioned in Scott’s memorandum.”⁵⁶

In fact, American officials had anticipated the issue of aircraft sales to China as early as the spring of 1971, when the Nixon administration was preparing the final step towards ending the embargo on China. At that time China was apparently trying to update its civil fleet to expand its domestic and international routes. In a memorandum dated March 25, 1971, Kissinger noted that “Pakistan International Airlines is attempting to dispose of some Boeing 720s to the Chinese” and anticipated that “the question of the sale of older American civil aircraft to China could become an active issue.” Based on the Under Secretaries Study Memorandum 91 (U/SM-

⁵⁴ Telegram from the Department of State to American Consulate General in Hong Kong, 25 April 1972, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

⁵⁵ Coldiron, “The Boeing Experience in China,” 376; “Exporting to China: Two Examples of Timing: Boeing and Clark Equipment,” 5.

⁵⁶ *FRUS, 1969-1976*, 17: 905 (footnote 4).

91), he recommended to “end the restriction against the sale by American and foreign airlines of older American civil aircraft ... on a case-by-case basis...” in the near future.⁵⁷

Following Nixon’s visit to China, the question of resale of used American civil aircraft to China evolved into a question of direct sale of customer-made transports by American aircraft manufactures. Watching China canvassing “world aircraft suppliers,” American aircraft suppliers were anxious to enter the Chinese aviation market before they were “excluded by foreign suppliers.” They urged Washington to issue a “clear-cut” statement to assure Beijing that the American government would not oppose civil aircraft exports to the PRC. In this context, the response of March 24, 1972 to National Security Study Memorandum 149 (NSSM 149) recommended: “Issue favorable advisory opinions in writing, when requested, concerning sale of U.S. aircraft for civil use, carrying equipment appropriate for peaceful end use, and approve such transactions when they develop, assuming the requirement for peaceful end use is met.”⁵⁸

“The requirement for peaceful end use” turned out to be a major barrier that threatened to block the deal. In general, the American exporter would apply for the required export license after the conclusion of a contract. The contract would provide the American government detailed information on the proposed transaction, including how the traded items would be used. Based on the information, the American government would decide to grant or deny the desired export license. In other words, this procedure gave the American government the final say over the concluded contract. Precisely for that reason, the Chinese refused to enter a contract with the Boeing Company before the latter obtained the necessary export license. .⁵⁹

⁵⁷ *FRUS, 1968-1972*, 17: 286.

⁵⁸ The Response to NSSM 149, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-190, NSSM Files, NSSM 149, NARA-College Park.

⁵⁹ Coldiron, “The Boeing Experience in China,” 376; Witkin, “Miller—Boeing’s Man in Peking;” “Exporting to China: Two Examples of Timing: Boeing and Clark Equipment,” 5.

On June 16, eight of the nine members of the Boeing team in Beijing, including Miller, left for the United States to obtain more data, and most importantly, an export license. The two parties tried to keep the deal alive by compromise. The Chinese disclosed the number of aircraft that they intended to purchase, although they believed that this information “would significantly weaken their bargaining position.” With this information, the Boeing Company went ahead to apply for an export license with a maximum value of \$150 million.⁶⁰ Due to lack of firm assurance on “peaceful end use” from Beijing, the Department of Defense opposed the potential sale on the grounds that the Chinese could use the convertible transports to supply America’s enemy in Vietnam.⁶¹ However, the Pentagon’s fears were not widely shared. Based on the observation of China’s efforts to upgrade its civil aviation service, most people believed that the 707s would be used to open new internal routes.⁶² By late June, with the intervention of the White House, the Defense Department finally reached an agreement with the Commerce Department that would permit the latter to issue the license sought by Boeing.⁶³

On June 28, Kissinger notified Ambassador Huang Hua of the American government’s approval for the proposed Boeing sale.⁶⁴ Huang had no comment. The Chinese apparently preferred not to talk about it outside the negotiating room. Even after the contract was signed, Miller refused to disclose the name of the Chinese chief negotiator because “the Chinese

⁶⁰ Ibid.

⁶¹ “U.S. Grants Boeing License to Sell 10 707s to China,” *New York Times*, July 6, 1972; “The Arrival of a New Era,” *Time*, July 17, 1972; “Nixon Tries Jetliner Diplomacy,” *New York Times*, July 9, 1972.

⁶² For example, in a compilation of papers on China submitted to the Joint Economic Committee of Congress in May 1972, it was pointed out that “attention has been focused recently on civil aviation in China because the Government of PRC has shown interest in buying passenger aircraft to upgrade its obsolete civil airfleet....The international airport at Shanghai and Canton have been expanded and reequipped with modern navigation aids...in order to accommodate the large passenger jet aircraft....” See Philip W. Vetterling and James J. Wagy, “China: The Transportation Sector, 1950-1971,” in *People’s Republic of China: An Economic Assessment*, Joint Economic Committee Prints, 18 May 1972, 149.

⁶³ Memorandum from Robert Hormats to General Haig, undated, Nixon Presidential Materials, NSC Files, Box 850, President’s File—China Trip, China Exchanges, NARA-College Park.

⁶⁴ *FRUS, 1969-1976*, 17: 1007.

preferred that way.”⁶⁵ In order to keep the publicity at a minimum, the American government did not make any public announcement about the export license, except for a routine publication by the Commerce Department in a register.⁶⁶

Miller’s team, augmented by two additional staff, returned to Beijing on July 9.⁶⁷ They found the Chinese “all smiles.”⁶⁸ “The export license makes it possible for us to negotiate on a more firm basis than we have been able to do in the past,” commented a Boeing official.⁶⁹

Within two weeks the two parties reached an “agreement on the technical configuration of the aircraft.”

By the beginning of August, they entered the final round of negotiations on “the contractual terms and conditions of the purchase agreement,” which dragged on for six weeks.⁷⁰ The Boeing negotiators attributed the protraction to the Chinese people’s aversion to legalistic language and their tenaciousness to bargain. During the long stay in Beijing, Miller grew a so-called “Chinese frustration mustache.” According to Herbert W. Grueter, in late August most of the Boeing negotiators were so frustrated that they “wanted to give up and tell the Chinese no deal was possible.” Miller, however, “politely informed his host that the group planned to leave Peking on a certain date, with or without an order.” Finally, both sides made some concessions: “the Americans deleted a few the detested legalisms and the Chinese accepted the spare-part prices.” On September 10, they signed the 125-page long contract, which they had gone through “ten times, paragraph by paragraph.”⁷¹

⁶⁵ Witkin, “Miller—Boeing’s Man in Peking.”

⁶⁶ *FRUS, 1969-1976*, 17: 1007.

⁶⁷ “Exporting to China: Two Examples of Timing: Boeing and Clark Equipment,” 5.

⁶⁸ “Miller—Boeing’s Man in Peking.”

⁶⁹ “Commerce Dept. Grants Boeing License for China 707 Sales,” *Aviation Week & Space Technology*, July 10, 1972.

⁷⁰ “Miller—Boeing’s Man in Peking;” Coldiron, “The Boeing Experience in China,” 377.

⁷¹ *Ibid.*; “China’s Shopping Spree,” *Time*, September, 25, 1972; Robert J. Samuelson, “Chinese Tough in Jet Deal,” *The Washington Post*, September 12, 1972.

Although the negotiations were “painstaking,” as a Boeing official summarized in 1979, Boeing and CAAC established “rapport and a feeling of trust.” After the contract was concluded, this Boeing official recalled, the two parties generally resolved their issues through discussions “without having to resort to reference to the contract per se.” In fact, according to him, the contract was “never taken out of the file.”⁷² Boeing and China had begun a longstanding relationship. By 2008, China had purchased over six hundred Boeing jetliners, which constituted over fifty percent of China’s commercial fleet and included every model except the 727.⁷³

Boeing-Related Sales

The Boeing sales opened business opportunities for its major suppliers. Pratt & Whitney Aircraft, a division of United Aircraft, built the engines, JT03D turbofans, for the 707s. Immediately after Boeing obtained approval from the American government for aircraft exports to China, Pratt & Whitney sent out a six-man team to Beijing to discuss the sale of spare engines and engine parts. The team included the vice president of United Aircraft International, Edward F. Hiscox, and a service manager for Pratt & Whitney, William D. Aberle. One and a half months after the conclusion of the Boeing sales contract, the United Aircraft Corporation announced that “it had sold \$20-million in spare jet engines to China.”⁷⁴

China bought a spare for every engine on the ordered 707s, which explained the unusually large sales by the United Aircraft. China did so because it had been used to the unreliability of the engines of Russian-made transports. However, the Boeing aircrafts proved to be far less troublesome than the Soviet ones. According to Serling, when a Boeing official, Al

⁷² Coldiron, “The Boeing Experience in China,” 378-379.

⁷³ Serling, *Legend and Legacy*, 360; “Boeing in China,” June 2008, www.boeing.com.

⁷⁴ “Commerce Dept. Grants Boeing License for China 707 Sales,” *Aviation Week & Space Technology*, July 10, 1972; “United Aircraft Engine Sale,” *New York Times*, October 27, 1972.

Heitman, visited China at the turn of the 1990s, he “found 32 of the 40 spares still in their original crates.”⁷⁵

The spare part sales became trickier, however, when China requested Inertial Navigation Systems (INS) to be installed on four of the ten ordered 707s. The United States was the only supplier of civil INS in the world. Civil INS was on the U.S. Munitions Control List and its exports were subject to the most rigid inter-agency review. In November 1972, Boeing submitted an application for exports of up to eighteen INSs to China, including eight to be installed on the aircraft and ten spares. The Departments of Commerce and State on one side, and the Department of Defense on the other, soon found themselves locked in irreconcilable disagreements over Boeing’s application. Thus the issue was referred to the President, who, at Kissinger’s recommendation, approved the sale on February 6, 1973.⁷⁶

The Defense Department argued that China could use the INS for military ends. For example, China could easily convert the civil aircraft equipped with INS into military transports. Moreover, since civil INS consisted of “extremely precise gyroscopic devices,” the PRC could use it “to reduce the error that accrue with conventional submarine positioning techniques such as might be used on a possible future Chinese ballistic missile submarine.” Due to the ambiguous distinction between Civil and Military INS, the Defense Department also opposed the transfer of the Civil INS from the Munitions Control List to the Commodity Control List, which was proposed by Acting Secretary of State U. Alexis Johnson.⁷⁷

⁷⁵ Serling, *Legend and Legacy*, 361.

⁷⁶ NSDM 204, *FRUS, 1969-1976*, 18: 21; Memorandum, from Kissinger to the President, 30 January 1973, Nixon Presidential Materials, NSC Files, NSC Institutional, Files (H-Files), Box H-238, National Security Decision Memoranda, NSDM 204; Memorandum, from Acting Secretary of State U. Alexis Johnson Discussion to the President, attached by Memorandum on the Export of Inertial Navigation System to the People’s Republic of China, 24 November 1972, *Ibid.*

⁷⁷ *Ibid.*

Johnson argued that “separate definitions can be found to distinguish civil from military INS equipment” for export control purposes. This argument apparently did not convince Nixon because he disapproved of transferring civil INS from the Munitions List while he approved the INS exports to China within the same executive order. To reduce the risk raised by the Defense Department, Nixon also accepted Kissinger’s recommendation to cut the “spare navigation units [to be exported to China] from 10 to 8, specifying a very low maintenance level” and imposing other restrictions on China’s use of INS.⁷⁸

A more convincing argument for the sale was that China’s intention was clear: they wanted to use INS to modernize their civil fleet and launch new international routes. Based on the same assumption a few months earlier, the U.S. government approved the export of the Boeing 707s to China. As the proponents of the sale explained, “As long as expanded contact and trade with the West, rather than confrontation, are the goals of the leader of the PRC, they can be expected to comply with some restrictions on the use of INS.”⁷⁹

It was also argued that disapproval of the INS exports to China would cause clear political and economic costs to the United States. Civil INS had already been widely used in international aviation and was standard equipment for the Boeing 747, the Concorde, and other advanced civil aircraft. Disapproval of the sale of civil INS would not prevent China from completing the 707 aircraft purchase, but would certainly encourage it to look for other sources of modern civil aircraft outside the United States. In addition, China had made preliminary contracts to buy two Concorde from France and one from the United Kingdom. The British and French “would regard this [disapproval] as a U.S. attempt to obstruct a \$100 million sale of the CONCORDE.” The Europeans could thus speed up their development of civil INS and break the

⁷⁸ Ibid.

⁷⁹ Ibid.

U.S. monopoly on this technology. In short, disapproval would impair the relations of the American government with its allies, China, and its own business people.⁸⁰

Explaining Boeing's Success in China

O. M. Roetman, Boeing's director of international sales, believed that the main reason for Boeing's initial success in China was "because Kissinger and Nixon showed up in a 707," which was Air Force One at the time.⁸¹ However, admiration alone could not justify the purchase of ten 707s. In fact, Chinese international travelers were long familiar with the Boeing aircraft through the service of the Pakistan International Airline (PIA) and Air France, which extended their international routes into China respectively in 1964 and 1966.⁸² But not until 1971, when the CAAC intensified its efforts to operate beyond China's periphery, did Beijing begin to express its interest in the Boeing aircraft.

China's interest in Boeing was not only a reaction to Washington's overtures, but also a reflection of a broad change in Beijing's posture towards the outside world. Entering the 1970s, China ushered in a new era of vigorous diplomacy. From 1965 to October 1970, only one country, the People's Democratic Republic of Yemen, newly recognized the Beijing regime. In 1970, five other countries, including Canada, recognized the Beijing regime. In 1971, besides the United Nations, fifteen more countries switched diplomatic relations from Taipei to Beijing. This included Iran and Turkey through which the Chinese airline could potentially reach Europe and Africa. With Sino-American rapprochement becoming official in 1972, an unprecedented number of governments, sixteen in total, established diplomatic relations with Beijing. In the

⁸⁰ Ibid.

⁸¹ Serling, *Legend and Legacy*, 360. For his first trip to Beijing in June 1971, Kissinger rode a Boeing 707 of Pakistani International Airline. For the second trip in October 1971, he rode Nixon's Air Force One. See *Kissinger, White House Years*, 740, 776.

⁸² PIA operated between Dakar and Shanghai and Air France operated between Paris and Shanghai. See Yao Jun ed., *Zhongguo Huangkong shi (A History of China's Aviation)* (Beijing: Daxiang Chubanshe, 1996), 339, 385.

same year, the United Kingdom and the Netherlands upgraded their diplomatic relations with Beijing from the charge d'affaires level to the ambassadorial level.⁸³

China's national airline, however, was incapable of bringing China's diplomats to their destinations beyond China's periphery. For example, Huang Hua, the PRC's first ambassador to Canada, had to fly with Air France and transfer flights in Paris to get to his post.⁸⁴ So did the PRC's first delegation to the United Nations.⁸⁵ By 1973, the CAAC operated only four international routes, ones to the Soviet Union, North Korea, Vietnam, and Cambodia.⁸⁶ Its limited international services was a poor reflection of the rapid development of China's diplomatic relations and limited China's further economic and cultural exchanges with other countries.

The CAAC had tried to expand its international routes into Eastern Europe and Africa in the mid-1960s due to growing tensions between Beijing and Moscow. Throughout the 1950s, for those Chinese who needed to reach countries beyond China's periphery, a connection flight in Moscow was the only option. As a result of the Sino-Soviet split, a transit in Soviet territory was less than welcomed by the Chinese and their Russian counterparts. In this context, China opened Canton and Shanghai to the PIA and Air France to break the isolation. Meanwhile, Chinese leaders felt compelled to develop China's own long-range civil aviation.⁸⁷

⁸³ Ma, *The Cultural Revolution in the Foreign Ministry of China*, 307, 321-322.

⁸⁴ Huang, *Qinli yu Jianwen*, 171.

⁸⁵ *Ibid.*, 183.

⁸⁶ Deng Liqun ed., *Dangdai Zhongguo de Minhang Shiye* (The Development of Civil Aviation in Modern China) (Beijing: Zhongguo Shehui Kexue Chubanshe, 1989), 110. See also Yao, *Zhongguo Huangkong shi*, 324, 330.

⁸⁷ Through a joint civil aviation enterprise established in 1950, the Soviet Union helped the PRC to open its first three international routes respectively to Soviet cities Chita, Alma-Ata, and Irkutsk, where the passengers could catch a flight to Moscow and then fly from Moscow to anywhere they needed to go. In 1954, the joint enterprise was completely turned to China. According to the Sino-Soviet civil aviation agreement of 1954, Aeroflot, the Soviet national airline and the CAAC, the Chinese national airline, had equal rights to fly between Moscow and Beijing. Aeroflot operated between Moscow and Beijing ever since. Due to its inadequate equipment, however, the CAAC did not go beyond Irkutsk until 1974. See *ibid.*, 215, 217-218, 324.

Between 1963 and 1965, to break its diplomatic isolation, Premier Zhou frequently toured the nonaligned nations in Asia, Eastern Europe, and especially the recently independent countries in Africa. Zhou's means of air transportation for these tours were usually chartered planes from foreign airlines. For example, KLM Royal Dutch Airlines provided the air service for his fourteen-nation tour from December 13, 1963 to February 29, 1964.⁸⁸ Between March 23 and April 4, 1965, he made another cross-continental tour by a PIA airliner.⁸⁹ There is no doubt, however, that Zhou would have preferred to fly with China's own airline. On March 23, 1965, on the way to Romania, Zhou told his staff that the CAAC must expand its international routes to facilitate China's increased diplomacy. On April 4, he commented that the CAAC should incorporate Boeing's technology into its own fleet. Encouraged by Zhou, the CAAC soon made its first flight to Africa and Eastern Europe later that year. In June it provided the charter flight for Zhou's visit to Tanzania. The very next month the airline flew the General Secretary of the CCP Central Committee, Deng Xiaoping, to Romania to attend a party congress.⁹⁰ Without modern long-range aircraft, however, the CAAC could not make nonstop flights to Europe or Africa. On its way to Tanzania in June 1965, for example, it had to stop at eight international airports.⁹¹ As Edward Beauchamp says, the low-quality aircraft "would have been an

⁸⁸ The fourteen nations include ten African countries, Albania, and three Asian countries. The ten African countries were the United Arab Republic (currently Egypt), Algeria, Morocco, Tunisia, Ghana, Mali, Guinea, Sudan, Ethiopia, and Somalia. The Asian countries were Burma, Pakistan, and Ceylon. See "Premier Zhou Enlai's Three Tours of Asian and African countries," Ministry of Foreign Affairs of the People's Republic of China [online version December 1 2008 www.fmprc.gov.cn/eng/ziliao/3602/3604/t18001.htm]. See also "Chou's Trip: A Few Crises But Not Much Headway," *Time*, February 14, 1964.

⁸⁹ He visited Rumania, Albania, Algeria, Egypt and Pakistan. He set out for Rumania on March 23 to attend the state funeral of Rumanian leader Gheorghe Gheorghiu-Dej. See "Chou Will be at Funeral," *New York Times*, March 24, 1965.

⁹⁰ Yao, *Zhongguo Huangkong shi*, 340-341.

⁹¹ *Ibid.*, 340.

embarrassment to the government and detrimental to its image abroad.”⁹² It seemed only logical that the CAAC’s next step would be to shop for modern aircraft.

However, China’s civil aviation expansion program halted with the beginning of the Cultural Revolution, as did China’s diplomacy. During 1967 and 1968, Beijing kept all its ambassadors, except for Huang Hua to Egypt, at home to participate in the Cultural Revolution. Moreover, China replaced diplomacy with propaganda campaigns. Embassies abroad were turned into distribution centers for Mao’s works and badges. China’s efforts to spread revolution abroad only exacerbated existing problems, while creating new conflicts between Beijing and foreign governments. According to Ma Jisen, China was engaged in disputes with forty out of the fifty-three countries with which it had diplomatic relations during these years.⁹³ To make matters worse, the Chinese masses responded to the foreign critiques of their Cultural Revolution by attacking foreign embassies in Beijing, which climaxed in the burning of the Office of the British Charge d’Affaires in August 1967. These xenophobic movements further alienated Beijing from international society.⁹⁴

Beginning in 1969, Beijing re-dispatched its ambassadors abroad. The returned ambassadors not only helped to repair fragile foreign relationships, but also actively participated in the opening of new ones. For example, the second Chinese ambassador to return to his post was Ambassador Huang Zhen to France, who played a critical role in the opening between Beijing and Washington.⁹⁵ By 1976, China had established diplomatic relations with most countries in the world.

⁹² Mark Dougan, *A Political Economy Analysis of China’s Civil Aviation Industry* (New York: Routledge, 2002), 56.

⁹³ Ma, *The Cultural Revolution in the Foreign Ministry of China*, 307.

⁹⁴ For details, see *ibid.*, 151-189.

⁹⁵ Huang Zhen and General Vernon A. Walters, American military attaché in Paris, constituted the secret Paris channel, which was made the main communication channel between Beijing and Washington after Kissinger’s secret trip to China in July 1971. After Nixon’s visit in February 1972, this channel was made public. See, Cao Guisheng, “Huiyi Zhong Mei ‘Bali Mimi Qudao’” (Recollection of The Secrete Paris Channel), in *Xin Zhongguo*

As China's diplomacy stepped up, the CAAC began shopping for Western aircraft. In June 1970, Beijing obtained its first jet planes—four used Trident 1-E—from PIA.⁹⁶ In September 1970, a Chinese civil aviation delegation toured the United Kingdom and France to investigate the aircraft industry.⁹⁷ In the following years China invited major aircraft suppliers of the world, including Hawker Siddeley, Aerospatiale, Boeing, and Lockheed to Beijing for technical and sales discussions. As it was reported in August 1972, “Peking’s Hotel of the Nationalities has been so filled with U.S., British, and French aircraft salesmen lately that one British wit suggested a Royal Aeronautical Society symposium on market survey to fill up time between meetings with Chinese civil aviation authorities.”⁹⁸ By the time China concluded the contract with Boeing in September, it had also ordered five Soviet-made Ilyushin-62s, twelve Trident 2-Es, and signed preliminary agreements to buy three Anglo-French Concorde.⁹⁹

Besides shopping for aircraft, the Chinese government was also busy negotiating civil aviation agreements to obtain route rights for its planned inter-continental flights. Between 1972 and 1974, China signed civil aviation agreements with fifteen countries and joined the International Civil Aviation Organization. Beginning in March 1973, China opened Beijing to international flights. In August, Zhou urged the CAAC to “fly outward,” reemphasizing that an increasingly opened China demanded broader air links with the outside world.¹⁰⁰

Waijiao Fengyun (Winds and Clouds in New China's Diplomacy), v. 3 (Beijing, Shijie Zhishi Chibanshe, 1991), 46-56.

⁹⁶ Henry S. Hayward, “Peking’s air fleet lacking in long-range jet equipment,” *The Christian Science Monitor*, November 21, 1970.

⁹⁷ “Chinese Delegation,” *The Washington Post*, September 4, 1970.

⁹⁸ “Occidental Meeting,” *Aviation Week & Space Technology*, August 21, 1972.

⁹⁹ “China’s Shopping Spree;” Tad Szulc, “U.S. Officials Say China Widens African Aid to Extend Influence,” *New York Times*, September 4, 1972; Yao, *Zhongguo Huangkong shi*, 389. Later, China purchased more Tridents, but never finalized the order for the Concorde.

¹⁰⁰ In 1972, Beijing signed the agreements with Albania, Rumania, Yugoslavia, Afghanistan, Ethiopia, Turkey and Iran. In 1973, it signed the agreements with Italy, Norway, Denmark, Greece, Sweden, Canada, and Switzerland. In 1974, it joined the International Civil Aviation Organization and signed the agreement with Japan. See Yao, *Zhongguo Huangkong shi*, 387, and 388.

By 1974, equipped with Boeing 707s, the CAAC was ready. On March 30 and April 2, it made two trial flights to New York.¹⁰¹ Between September and November, it opened three international flights from Beijing to Tokyo, Paris, and Tirana respectively. In March 1975, it successfully flew around the world. In February 1976, it made a scene by going to Los Angeles to pick up former President Nixon for a second visit to China.¹⁰²

In addition to the long-range flights, the Boeing sale-related training programs also exposed more Chinese to Western technology and society. After the contract was signed, about two hundred Chinese technicians went to Seattle for flight and ground crew trainings. In February 1974, a Chinese delegation opened an office at the Boeing Commercial Airplane Company “to monitor the construction” of their ordered aircraft. “To supplement the maintenance training in Seattle,” Boeing also opened two technical schools in China to prepare young Chinese mechanics for U.S. Federal Aviation Administration’s certification tests to get the Airframe and Power Plant licenses.¹⁰³ From different aspects, the Boeing sale played a positive role in moving China from a closed society toward a more open one.

The Mysterious Beginning of U.S. Grain Exports to China

On September 13, just three days after the Boeing Company signed the contract with China, news broke out that “the United States has sold some wheat to China, the first American grain sale to that country in more than 20 years”.¹⁰⁴ The next day both the U.S. Department of

¹⁰¹ The two trial flights were for a planned special flight to bring the Deng Xiaoping-led delegation to the United Nations. However, the CAAC cancelled the special flight at last. Telegram from United State Mission to the United Nations to the Department of State, 28 March 1974 [Online version December 2, 2008, available through the online catalog of NARA-AAD].

¹⁰² In addition, in January, the CAAC began to operate between Beijing and Moscow, using Il-62. See Yao, *Zhongguo Huangkong shi*, 387.

¹⁰³ Serling, *Legend and Legacy*, 361-363; “Boeing Acts as Host,” *U.S.-China Business Review* 1, no. 2 (1974): 15-18.

¹⁰⁴ The news appeared in major U.S. newspapers on September 14. See, for example, E.W. Kenworthy, “Mainland China Reported Buying First U.S. Wheat,” *New York Times*, 14 September 1972; Donald M. Kendall, “U.S. and China In Wheat Deal,” *The Washington Post*, September 14, 1972. See also Hearings before the Subcommittee on

Agriculture and the Louis Dreyfus Corporation of New York confirmed the news. Gerard Louis Dreyfus, head of the Louis Dreyfus Corporation of New York, explained that the deal was arranged between the French representatives of Louis Dreyfus, et Cie, Paris, and the China National Cereals, Oils and Foodstuffs Import and Export Corporation three weeks ago in Beijing. According to him, the Chinese buyers approached the French trader to purchase a large quantity of wheat. The French market did not have the quantity for such a supply, so the French company asked its “New York branch” to buy the wheat from the American market. Mr. Dreyfus disclosed that according to the contract, in the next few months his firm would ship out 400,000 tons of wheat from its storage houses in the Gulf Coast and West Coast ports to China.¹⁰⁵ He noted that “the Chinese buyers did not indicate any feelings one way or the other as to the source.”¹⁰⁶

Five months later in Beijing, in an apologetic manner, Premier Zhou mentioned to Kissinger that China canceled the first grain purchase from the United States due to the publicity around it. He said, “Actually we didn’t mean to cancel the first purchase of grain—I think there was a one-million-ton purchase. The first one we cancelled but because of the propaganda in the press which compared us and put us on the same par as the Soviet Union; we felt we had to cancel that.” Kissinger was obviously confused, asking, “What was that?” Zhou replied, “The

Livestock and Grains of the Committee on Agriculture of the House of Representatives, *Sales of Wheat to Russia*, 14, 18 and 19 September 1972 (Washington D.C.: U.S. Government Printing Office, 1972), 2.

¹⁰⁵ Depending on different sources, the reported amount of the first purchase varied from 400,000 to 500,000 metric tons. For example, according to *New York Times*, it was 500,000 metric tons, while according to *The Washington Post*, it was 400,000 metric ton. See H.J. Maidenberg, “Peking Purchase of American Wheat Is Confirmed By Louis Dreyfus Corp.,” *New York Times*, 15 September 1972; Stanley Karnow, “Sale of 400,000 Tons of U.S. Wheat to China Is Set,” *The Washington Post*, 15 September 1972. According to American governmental source, it should be 408,000 metric tons or 15 million bushels. See Hearings before the Subcommittee on Livestock and Grains of the Committee on Agriculture of the House of Representatives, *Sales of Wheat to Russia*, 14, 33; and Memorandum for Deputy Director for Intelligence, “Current Status of US Grain Sales to China,” November 1, 1972, CIA 2006 Release, NARA-College Park. Combining other English and Chinese sources, the case was probably that China contracted to buy about 500,000 tons of wheat with the Louis Dreyfus Company of Paris, which procured most of the wheat from the American market via the Louis Dreyfus Company of New York.

¹⁰⁶ Bureau H.J. Maidenberg, “Peking Purchase of American Wheat Is Confirmed By Louis Dreyfus Corp.,” *New York Times*, September 15, 1972; Stanley Karnow, “Sale of 400,000 Tons of U.S. Wheat to China Is Set,” *The Washington Post*, September 15, 1972.

first deal was through the French businesses. The second time they [the press] kept quiet but it was still through a third country.”¹⁰⁷

Although Kissinger did not continue pursuing this subject, he must have been puzzled by the alleged cancellation of the first purchase. American intelligence confirmed that the second deal proceeded quietly, in late September 1972, and remained unknown until a month later when “some observers...noted that [the] total wheat loadings at [the] U.S....ports...exceeded the total amount” of the publicized first deal.¹⁰⁸ Various American sources, however, indicated that the first purchase went through despite the publicity. The total amount of wheat involved was measured at 408,000 metric tons, not a million.¹⁰⁹

As a matter of fact, Kissinger personally helped the first purchase to proceed. Probably around August 21, 1972, the New York grain trader submitted a request to the American government for delivering a Chinese grain purchase from the U.S. coast to China using British ships. Due to the unsolved outstanding claims between the two countries, any Chinese property in the United States was subject to possible attachment. In order to allow the grain purchase to take place on August 24, Nixon decided to make the PRC an eligible country under the U.S. Port Security Regulations, which would then exempt Chinese or Chinese-chartered cargoes at U.S. ports from possible attachment. Kissinger immediately notified the Secretary of Transportation of this decision.¹¹⁰

¹⁰⁷ *FRUS, 1969-1976*, 18: 155.

¹⁰⁸ Memorandum for Deputy Direction for Intelligence, “Current Status of US Grain Sales to China.”

¹⁰⁹ See footnote 105.

¹¹⁰ Memorandum from R. T. Kennedy to Haig, 24 August 1972; Memorandum from Kissinger to the Secretary of Transportation, Nixon Presidential Materials, NSC Files, Box 850, China Exchanges, June 25, 1972-October 17, 1972, NARA-College Park. According to a memorandum from Holdridge to Kissinger dated September 7 1972, Louis-Dreyfus of New York indicated to the American officials that the negotiations between the Chinese buyer and Louis-Dreyfus of Paris began around August 17 in Beijing. According to what Gerard Louis-Dreyfus told the media on September 13, the deal was arranged after three days of negotiations. So it was probably around August 20 when the two sides reached the agreement to buy wheat from the United States, and around August 21, which was a Monday in the U.S., when the grain trader made the request regarding the shipping issue to the U.S. government.

The very next day Winston Lord called Mrs. Shih Yen Hua, the interpreter of the Chinese mission to the United Nations in New York, to inform the Chinese side of the change in U.S. regulations. He explained that the change was made to “allow that [grain] transaction to proceed.”¹¹¹ On August 29, the American embassy in Paris delivered a memorandum to the Chinese embassy to be transmitted to Beijing, which contained technical details regarding how to meet the U.S. regulations to avoid possible attachment.¹¹²

Neither Beijing nor its ambassadors in New York and Paris made any comment on the change in the U.S. port regulations or China’s possible wheat purchase from the United States. In fact, Beijing never notified Washington of its intention to buy American wheat; apparently it preferred the U.S. government to be invisible in the deal. The Chinese perspective indicated that the Sino-American trade should only develop on a people-to-people basis before normalization. Therefore, when American officials approached Chinese diplomats regarding the wheat deal, the Chinese diplomats generally denied any knowledge of it.

On August 29, the American Political Councilor in Paris, Allen Homer, called on the Chinese embassy to deliver the memorandum regarding the amendment of the U.S. Port Security Regulations. He explained to the first secretary, Cao Guisheng (Ts’ao Kuei-sheng), that a U.S. firm had told Washington that it was “negotiating with [the] PRC on [a] grain sale” and had submitted a request regarding the transportation of the concerned wheat. Cao replied that “he had no information to confirm or deny” the alleged wheat deal. On that day, the press reported that

Holdridge’s memorandum is printed in *FRUS, 1969-1976*, 17: 1057-1059. Gerard Louis-Dreyfus’s interview was reported in Stanley Karnow, “Sale of 400,000 Tons of U.S. Wheat to China Is Set,” *The Washington Post*, 15 September 1972.

¹¹¹ Telephone conversation, Winston Lord and Miss Shih, 25 August 1972, Nixon Presidential Materials, NSC Files, Box 850, China Exchanges, June 25, 1972-October 17, 1972, NARA-College Park.

¹¹² Telegram from American Embassy in Paris to the Department of State, 29 August 1972, RG 59, Lot Files: 74 D 176, Box 5, China-Paris Channel Paper, March 1972-April 1973, *ibid.* The American trader also received instructions regarding how to meet the regulations. In the memorandum from Kennedy to Haig, it was indicated that the grain contractor understood that “the specific terms of the deal should be phrased in a way which would not subject the cargo to possible attachment for claims.” See footnote 110.

the drought in Northern China might force Beijing to buy American wheat. Cao implicitly dismissed the speculation, telling Homer that “[the] wheat production increased this year by ten percent in certain provinces [in China] over last year.”¹¹³

However, the negotiations in Beijing presumably speeded up after August 25. On the same day that Washington gave the green light to Beijing for the transportation of the wheat, the U.S. Department of Agriculture announced the reduction of governmental subsidy on U.S. wheat exports. The new policy would force the U.S. exporters to ask for a higher price for American wheat. The negotiating parties in Beijing had to act quickly in order for the grain trader to get a good subsidy rate, while at the same time allowing Chinese buyers to get a bargain price.

On August 25, 1972, the U.S. Department of Agriculture announced that it would no longer provide “any world price guarantee to our exporters.” In order to keep American wheat competitive on the international market, the American government pledged to pay the exporters the difference between the domestic market price and a target world price maintained between \$1.63 and 1.65 per bushel. However, the domestic price had gone up by more than thirty percent by the end of August 1972 as a result of the historic Soviet purchases. On July 8, Nixon announced that Washington and Moscow had signed a three-year wheat deal worth \$750 million. Between late July and late August, the Russians bought about four hundred million bushels of wheat—“about one-fourth the total American crop.” As the domestic price rose to \$2.1 per bushel by late August, the grain exporters continued selling wheat to the Russians at \$1.63 a bushel. This led to a soaring subsidy payment as well as domestic food shortages and inflation. In response, the U.S. Department of Agriculture announced that it would begin to pay the

¹¹³ Telegram, from American Embassy in Paris to the Department of State, 29 August 1972, RG 59, Lot Files: 74 D 176, Box 5, China-Paris Channel Paper, March 1972-April 1973; “Drought May Force China to Import From U.S.,” *New York Times*, 29 August 1972; “Drought in Northern Area May Force Peking to Buy U.S. Wheat,” *The Washington Post*, 29 August 1972.

subsidy based on the actual world price on the transactions completed on August 25 and thereafter.¹¹⁴

As a transition to the new policy, the Agriculture Department pledged to pay a special subsidy on transactions completed by August 24 and registered between August 25 and September 1. This special subsidy would be based on the old artificial world price and the August 24 domestic price that was as high as \$2.1 a bushel. Since the Department allowed five additional business days for the applicants to supply verifying information, the cut-off date for this generous special subsidy was potentially postponed to September 11.¹¹⁵ It was not clear when Louis Dreyfus applied for the special subsidy for the China sale, but the official registration took place on September 11, which was how the deal became public knowledge.

The French representatives and the Chinese buyers probably finalized their contract on September 1.¹¹⁶ On September 7, representatives of the Louis Dreyfus Corporation of New York informed Secretary of Agriculture Earl L. Butz and NSC staff Richard Solomon about the wheat deal. According to Holdridge's memorandum on this meeting, the representatives told Butz and Solomon that a Chinese political official intervened when "the negotiations was near consummation." This official made three points to the French negotiators:

1) The PRC is annoyed at the recent change in U.S. subsidy policy, which they [the Chinese] claim was done purposefully to harm their interests; 2) they [the Chinese] are upset at what they claim was an August 20 statement by Secretary Butz circulated in the press impugning the

¹¹⁴ Memorandum, from John C. Whitaker to the President, 30 August 1972, Nixon Presidential Materials, NSC Files, Box 850, China Exchanges, June 25, 1972-October 17, 1972, NARA-College Park; Hearings before the Subcommittee on Livestock and Grains of the Committee on Agriculture of the House of Representatives, *Sales of Wheat to Russia*, 9, 278-279; Nick Kotz, "U.S. Act to Curb Rising Wheat Cost," *New York Times*, 26 August 1972.

¹¹⁵ Kenworthy, "Butz's Agency Confirms Day's Notice to Exporters."

¹¹⁶ *FRUS, 1969-1976*, 17: 1057-1059. On September 7, 1972, representatives of Louis Dreyfus Corporation of New York informed Secretary Earl L. Butz and NSC staff Richard Solomon of the wheat negotiations in Beijing. Based on that meeting, Holdridge wrote a memorandum, "Impending Chinese Wheat Purchase from the U.S. and Possible Snags," for Kissinger who would meet with Ambassador Huang Hua the next day. In the memorandum, he wrote, "According to Department of Agriculture procedures, the sale—to be eligible for governmental subsidy—must be registered at the USDA within 5 business days after its conclusion. Such registration, which will take place next Monday (September 11)..." The date of the conclusion of the contract, therefore, should be September 1.

veracity of Chinese claims about their level of grain production; and 3) PRC authorities are concerned that President Nixon will give highly visible publicity to a grain sale to the PRC for domestic political purposes.”¹¹⁷

Holdridge suspected that these complaints “were intended to reach USG ears,” which was probably the case. Having learned from its diplomats that Washington had been very encouraging of the wheat deal, Beijing probably expected Washington’s further help with the subsidy and publicity issues.

Beijing’s first complaint was apparently intended to pressure Washington to apply the special rate to the China sale when the registration took place. This complaint, which must have occurred after August 25, cast doubt on Louis Dreyfus’s later assertion that “the transaction was completed before 3:30 P.M. Aug 24,” thus eligible for the special subsidy.¹¹⁸ Besides, it was not until August 25 that Lord notified the Chinese of the amendment in the U.S. Port Security Regulations. It is difficult to believe that the Chinese would commit themselves to the wheat deal without that assurance regarding the shipment of the concerned wheat. Nonetheless, the U.S. Agriculture Department, perhaps under pressure from the White House, accepted Louis Dreyfus’s words and applied the special subsidy to the transaction.

The second complaint made by the Chinese official was most likely in reference to the articles on China’s drought in the August 29 newspapers.¹¹⁹ The identified source of the information was the U.S. Department of Agriculture. According to the articles, the Agriculture Department specialists made comments on China’s agricultural conditions such as: “Although the effects of weather have probably been mitigated to some extent by improved seed varieties,

¹¹⁷ *FRUS, 1969-1976*, 17: 1057-1059.

¹¹⁸ Karnow, “Sale of 400,000 Tons of U.S. Wheat to China Is Set;” E. W. Kenworthy, “Butz’s Agency Confirms Day’s Notice to Exporters,” *New York Times*, September 16, 1972.

¹¹⁹ “Drought May Force China to Import From U.S.,” *New York Times*, August 29, 1972; “Drought in Northern Area May Force Peking to Buy U.S. Wheat,” *The Washington Post*, August 29, 1972. In Paris, the first secretary of the Chinese embassy also commented negatively on this story to his American counterpart. See footnote 113.

better irrigation and drainage facilities and more fertilizer, an increase in total grain production over the claimed record harvest of 1971 seems doubtful.”¹²⁰ The press not only speculated that the drought might force China to buy American wheat, but immediately linked the potential Chinese purchase to the recent Soviet purchases. *The Washington Post* wondered “whether the United States would agree to any sales to the Peking government” given the wheat shortage caused by the Soviet purchases.¹²¹

Although the Beijing government knew that Washington would welcome the wheat sale to China, it was deeply concerned that Nixon would want to publicize it in an election year. At the time, the sort of articles on China’s agricultural conditions which were worrisome to Chinese officials were at most sporadic and did not hint at the ongoing negotiations in Beijing. From Beijing’s perspective, these articles were foreboding of the way that the American media would approach the deal if the deal became public knowledge. Therefore, indirectly through their business partners, the Chinese sent the clear message to Washington that they preferred to not have the deal publicized in any way, and warned Nixon to not play up the issue for the purpose of his campaign.

Washington was willing to accommodate as much as possible. The publicity issue turned out to be far trickier than the subsidy issue. As soon as the wheat sale to China was registered with the U.S. Department of Agriculture, its existence would be in the public domain. The press would eventually pick it up. Not only was it just a matter of time before the press would get a hold of the story, but the government had no control over what the press would do with it. Holdridge predicted that this sale would become “headline news” due to “the magnitude of the sale, and public interest in such an event in an election year.” He thus suggested that Kissinger

¹²⁰ “Drought May Force China to Import From U.S.,” *New York Times*, August 29, 1972.

¹²¹ “Drought in Northern Area May Force Peking to Buy U.S. Wheat,” *The Washington Post*, August 29, 1972.

should raise the issue with the Chinese to “work out...a mutually agreeable press position on the transaction.” He also suggested for Kissinger to “take this opportunity to educate the Chinese about the difficulties of working with our press, and urge them to be reasonably open about the purchase.” Holdridge warned that “not raising the issue with the Chinese might lead to uncontrolled and offensive publicity which would damage future trade prospects.”¹²²

Following Holdridge’s recommendation, on September 8, Kissinger raised this issue with Ambassador Huang Hua in New York and offered two options to handle it:

—We could leave it in the hands of the private companies and not treat it as a governmental concern—but this leaves us with no control over the publicity
 —Or we could respond in a governmental capacity. But then there is the question of what to say and at what level. We will respect your wishes in this.

Kissinger then turned to his staff member Peter W. Rodman and instructed him to “Make sure no cables on this go out. Tell Butz to keep his Department shut up. Have Haig do this.” Then he turned back to Huang pledging, “I repeat: We have not interest in this except to be sure there is correct treatment of your concerns.”¹²³

Huang simply replied: “I have no instructions from Peking. I doubt whether the said trade item would be carried on.” Kissinger reemphasized that he was not “recommending it or the opposite” but was “only concerned with [what happens] if it occurs.” He then concluded the subject by saying that he would “do nothing further” unless he heard something from the Chinese side.¹²⁴

Soon after Kissinger’s meeting with Huang, Haig called Secretary Butz to ask his people to “keep quiet” on the wheat sale to China. When the news broke out on September 13, 1972, Haig once again “gave strict ‘no comment’ guidance ...to State, Agriculture, Commerce and

¹²² *FRUS, 1969-1976, 17: 1057-1059.*

¹²³ *FRUS, 1969-1976, 17: 1069-1070.*

¹²⁴ *Ibid.*

Ziegler” and praised Butz for spending that day “successfully evading substantive comment.” He especially emphasized that nobody in the government should comment about the relations between the U.S. government, the grain traders, and the PRC in the wheat deal. He indicated that the French company planned to “write [a] letter to [the] newspapers indicating that [the] PRC approached it...to purchase wheat and that company decided to make purchase in [the] U.S.”¹²⁵

It is unknown as to whether the letter from the French was sent or not. However, on September 14 the head of the American company met with the press. Dreyfus went to great lengths to emphasize that the deal was between the Chinese and the French, disclosing that his firm would in fact sell the wheat first to Paris to “de-Americanize” the commodity. During the interview, he referred to the Paris-based company as his parent company. During the earlier private meeting with Butz and Solomon, however, his representatives actually indicated that their firm was a “U.S. firm” and the Paris-based company was their “sister firm.”¹²⁶ Evidently the purpose of the interview was to “de-Americanize” this deal in the public eye so that Beijing could maintain the posture that it bought the wheat from the French, not from the Americans.

On the same day at 9:30 am, the Agricultural Department issued an announcement to confirm the transaction. Half an hour later, when Secretary Butz appeared before Congress to explain the sales to Russia, the Congressmen also asked him to explain the newly announced sale to China. Butz explained that this year China “had some crop losses” and was “in a situation where they need to buy wheat.” As far as the wheat deal was concerned, he emphasized that “the Chinese had been in contact with an international company, a French company.” As far as the

¹²⁵ Memorandum from Haig to Kissinger, 13 September 1972, Nixon Presidential Materials, NSC Files, Box 850, China Exchanges, June 25, 1972-October 17, 1972, NARA-College Park; “U.S. Sells Communist China Some Wheat, But Agriculture Officials Silent on Amount,” *Wall Street Journal*, September 14, 1972.

¹²⁶ *FRUS, 1969-1976*, 17: 1057-1059. On September 7, 1972, representatives of Louis Dreyfus Corporation of New York informed Secretary Earl L. Butz and NSC staff Richard Solomon about the wheat negotiations in Beijing and conveyed Beijing’s concern about possible publicity. Based on that meeting, Holdridge wrote a memorandum, “Impending Chinese Wheat Purchase from the U.S. and Possible Snags,” to Kissinger on the same day.

subsidy issue was concerned, he argued that “We [The Department of Agriculture] are not doing business with China. We are doing business with an exporting company.” In short, unlike the sales to the Soviet Union, there were no interactions between the American and Chinese governments in terms of the wheat sale.¹²⁷

Despite these efforts, Americans viewed the sale to China in direct reference to the U.S.-Soviet wheat deals.¹²⁸ For example, Congressman Jones Rarick of North Carolina questioned Butz, “Our consumers in America...can anticipate that they will be called upon to help support this beneficent Russian-Chinese feeding, will they not? The price of groceries will go up.” One article in *New York Times* commented that “America’s amber waves of grain seem to be on their way to feeding the (communist) world” and that these sales represented “important breakthroughs in East-West trade.”¹²⁹

The most common accusation was that both the Soviet Union and China took advantage of the American subsidy policies at the expense of American farmers, consumers, and taxpayers. Before the confirmation of the China sale, the Democratic Presidential Nominee George McGovern had charged the Nixon Administration of withholding the inside information from the farmers but tipping it to the major grain exporters, who thus made windfall profits in the wheat sales to the Soviet Union.¹³⁰ The American public suspected that the same thing happened with the China sale. During the Congressional hearing, Chairman of the United Grain Farmers of America, Cleo A. Duzan, argued that if the farmers had been as well-informed as the grain

¹²⁷ Hearings before the Subcommittee on Livestock and Grains of the Committee on Agriculture of the House of Representatives, *Sales of Wheat to Russia*, 14, 51.

¹²⁸ In July 1972, the United States and the Soviet Union signed a long-term contract—the Soviet Union would “buy \$750 million worth of American wheat and feed grain over a three-year period.” Within two months Soviet Union bought four hundred bushels, “one-fourth the entire U.S. crop.” See Harry B. Ellis, “Nixon’s Record Wheat Deal Losing Its Gloss,” *Christian Science Monitor*, September 19, 1972.

¹²⁹ Hearings before the Subcommittee on Livestock and Grains of the Committee on Agriculture of the House of Representatives, *Sales of Wheat to Russia*, 23; “The Grain Game,” *New York Times*, September 15, 1972.

¹³⁰ William, Greider, “McGovern Enjoys Dispute with Butz,” *The Washington Post*, September 12, 1972.

traders regarding the potential Russian and Chinese markets, they would have sold their wheat to the exporter at much higher prices. He warned, “If the other deals with Russia and the upcoming one with China are to be handled the same as this wheat deal, then the result could be disastrous [to the farmers].”¹³¹

After many farmers had already sold their crops in July, the massive Soviet purchases in August began to strain the world supply and drive up the wheat prices domestically and internationally. An article in *New York Times* brought up the question of “why it [the administration] persisted for so many weeks in paying a higher, and ever-increasing subsidy to permit foreign buyers—notably the Soviet Union and China—to purchase American wheat at the world price of about \$1.64 a bushel.”¹³² Another article in *The Christian Science Monitor* lamented that “the Soviet Union and Communist China...are getting a low, guaranteed price of \$1.63—financed by the U.S. taxpayer—while free-world nations, now coming into the U.S. market, must pay the higher world price currently prevailing.”¹³³

Between the two communist buyers, the Soviet Union was the main target of all these accusations because the Soviet purchases were about twenty-five times larger than the Chinese purchase. As a matter of fact, the sale to China never became the focus of the media’s attention.¹³⁴ When it came to explaining China’s motivation for the purchase, the major newspapers did not emphasize China’s agricultural conditions as the reason, but explained it mainly as a political gesture “rather than out of any real need.” When comments were made on China’s agricultural situation, the comments were generally positive. On September 14, for

¹³¹ Hearings before the Subcommittee on Livestock and Grains of the Committee on Agriculture of the House of Representatives, *Sales of Wheat to Russia*, 109.

¹³² “Wheat Subsidy Debacle,” *New York Times*, September 19, 1972.

¹³³ Harry B. Ellis, “Nixon’s Record Wheat Deal Losing Its Gloss,” *Christian Science Monitor*, September 19, 1972.

¹³⁴ Between September 14 and September 19, only two articles featured on the wheat sale to China in *New York Times* and two in *the Washington Post*, and one in *Wall Street Journal*. Among them, one made the front page of the *New York Times* on September 14 and one made the front page of the *Washington Post* on September 15. Even in those reports, the Soviet sales occupied considerable space.

example, *the Washington Post* stated that “the Chinese harvest this year has also been good.” On September 17, *The New York Times* said that “the specialists believe that despite drought in some areas the crop [in China] was good.”¹³⁵

Beijing, however, probably despised the fact that China was constantly mentioned together with the Soviet Union in the same context because of wheat. Beginning in the late 1950s the Beijing regime had been going to extreme lengths to distinguish itself from the Soviet Union. By the end of the 1960s relations between the two countries had become so bad that China had come to regard the Soviet Union as its arch foe. For the oversensitive radicals in China, regardless of the content of the concerned reports, the simple juxtaposition of the sales to China and the Soviet Union seemed to be enough to imply that the two countries were in similar agricultural troubles. The radicals would not hesitate to exploit the implication for political reasons. They would also charge that those who handled the wheat deal had disgraced China.

In this context, on September 19 Ambassador Huang protested to Kissinger that some Americans had “deliberately put the agricultural situation in China on a par with that of the Soviet Union” and warned that this kind of propaganda would “bring harm to such normal trade contacts.” Probably acting at Premier Zhou’s instruction, he urged Kissinger to “use his influence to forestall or minimize” the publicity around it. This was the first time that a Chinese official acknowledged China’s purchase of American wheat. Kissinger took the opportunity to imply that it was Beijing’s secretive attitude which had caused this perceived mess, replying, “If you can let us know in advance, it will help prevent such in the future.”¹³⁶

Huang’s protest was similar to what Zhou would say five months later about the publicity problem around the first purchase. However, Huang never indicated that China had canceled a

¹³⁵ Kendall, “U.S. and China In Wheat Deal;” Tillman Durdin, “Politics May Play a Part in China’s Wheat Purchases From U.S.,” *New York Times*, September 17, 1972.

¹³⁶ *FRUS, 1969-1976*, 17: 1077.

million-ton purchase or might cancel the already publicized 408,000-ton purchase due to the publicity problem. In fact, despite the first contract becoming public in the United States and causing some tension between Beijing and Washington, the French representatives of Louis Dreyfus remained in Beijing for further negotiations for, according to American intelligence, “an additional 500, 000 tons” of grain.¹³⁷ In late September, China quietly made the second purchase for 150,000 tons of wheat. On October 27, Nixon announced a sale of 300,000 tons of corn to China on radio for his presidential election campaign. In the following week, it was reported that China made at least two additional wheat purchases.¹³⁸

Altogether, according to the U.S. census in 1972, China bought a little more than a million tons of grain from the United States, including 587,000 tons of wheat and 437,000 tons of corn, all for human consumption.¹³⁹ The French Louis Dreyfus Firm handled all the sales. In fact, in a September 7 meeting with Butz and Solomon, the Louis Dreyfus people indicated that the Chinese initially intended to buy a million tons of wheat. Having agreed to procure the supply from the American market, according to the Louis Dreyfus people, the Chinese expressed a strong desire “to sweep under the rug the fact that it was produced in America.”¹⁴⁰ The million-ton wheat purchase that Zhou claimed to have canceled was most likely tactically divided into several contracts to minimize the potential publicity. But why were the concerned Chinese officials so afraid of publicity and why did they continue buying wheat from the United States despite that fear?

¹³⁷ Bureau of Intelligence and Research, “Peking Scrounges for World Wheat Supplies,” 29 September, 1972, RG 59, Lot Files: 78 D 77, Box 8, EA/PRC Paris POL 1972, NARA-College Park.

¹³⁸ Memorandum for Deputy Direction for Intelligence, “Current Status of US Grain Sales to China;” “Data on Latest Wheat Sale To China Are Announced,” *New York Times*, November 8, 1972.

¹³⁹ Memorandum for Kissinger, “Favorable U.S. Balance of Trade with the People’s Republic of China in 1972,” 5 February 1972, RG 59, Central Files 1970-1973, FT 1 CHICOM-US, NARA-College Park.

¹⁴⁰ *FRUS, 1969-1976*, 17: 1057-1059.

Gauging the Political Climate in Beijing By Wheat

On December 10, 1978, two years after Mao's death and the eve of the new era of Deng's Reform and Opening, Chen Yun spoke on the issue of wheat import, "[Some people say that] 'it is revisionist to eat imported wheat.' I disagree. During the Lushan Conference in 1961, I had asked Chairman Mao if we could purchase some American wheat through France. Chairman Mao said it was okay. Now with the Sino-American Shanghai Communiqué, we can buy wheat directly from the United States."¹⁴¹

Chen's statement illuminated the long-term struggle between the leftists and the moderates over the policy of importing wheat from the West which had been in play since 1960. Both of the two groups claimed support from Mao, who personally approved this policy, but also indicated that it was revisionist to do so. Former Vice Minister of Food Zhao Fasheng recalled that Mao made a comment in early 1960s, "The Soviets also imported some wheat. They imported ten million tons of wheat and they are revisionists. Our imports are five million tons, which made us half-revisionists."¹⁴² Since Mao's China was thought to be self-sustaining, the radicals tended to ignore the persistent food shortages in China. They considered the wheat imports a stigma to Mao's revolution.

¹⁴¹ He made this speech at the Work Conference of the CCP Central Committee—Northeast Group. The Work Conference aimed to unify the thoughts of the Party before the Third Plenum that would open on December 18 and mark the official beginning of the era of Deng's Reform and Opening. Chen Yun, *Chen Yun Wenxuan*, v. 3, 2nd edition, 236. In the 1960s, China improvised extremely circumvented shipping routes to obscure the fact that it was importing American wheat to feed its people. Legally, the U.S. embargo prohibited China's purchases of American wheat. Politically, these imports were an embarrassment to the Chinese leaders who claimed that the revolution had transformed China into a self-reliant and self-sufficient paradise. In fact, in August 1972, in the negotiations with the French company, the Chinese buyers also requested "more costly shipping arrangements and unusual procedures in documenting the sale" to obscure the source of the wheat. See *FRUS, 1969-1976*, 17: 1057-1059.

¹⁴² Zhao Fasheng, "Yi Chenyun Tongzhi dui Liangshi Gongzuo de Zhidao" (My Memory of Comrade Chen Yun on Food Policy), *Mian Huai Chen Yun* (Remembering Chen Yun) (Beijing, Zhongyang Wenxian Chubanshe, 2000) [online version December 7, 2008, available at <http://cpc.people.com.cn/GB/69112/83035/83319/5744130.html>]. In the beginning of 1960s, both China and the Soviet Union suffered crop failures. But China had a worse food shortage due to the "Great Leap Forward."

How did China pay for the wheat imports? Premier Zhou and his colleagues figured out that rice was generally worth twice as much as wheat on the international market. With the foreign exchange earnings from a ton of rice exports, China could afford to import two tons of wheat. This was exactly what China did in the 1960s and 1970s. From this angle, China's wheat imports involved scrupulous market calculations. Making such market calculations were taboo in Mao's vision of China.

The change of Beijing's attitude toward wheat importation hinted at the change of the political climate in the Politburo. When the radicals were at the height of their influence, neither agricultural crises nor market gains were legitimate justifications for wheat imports. When the moderates were in a better position, they could justify importation by food shortages or market forces.

During the peak of the Cultural Revolution, Zhou took pains to emphasize China's self-reliance and self-sufficiency. He explained that the declining, but still existing wheat importation was not driven by food shortages or market forces. He said during the National Food Work Conference in October 1967:

We have answered the calls of Chairman Mao, the first of which is not to eat imported grain....the natural disasters in 1959, 1960 and 1961 was one cause for the wheat imports. Our [State Council's] blind [economic] planning was also responsible for it....We had never depended on the imported [grain before 1960] and now we have once again overcome that dependence....Although we still import some [grain], even the foreigners recognize that these imports are not for consumption....

Then why did China still import Western wheat? Zhou gave two main reasons: to increase the variety of China's crops and to increase the national grain reserve in case of war. "Therefore," he concluded, "our grain imports are totally for the needs of economic development and war

preparation, not driven by market and [commercial] exchange....”¹⁴³ These two purposes became the standard justifications for China’s wheat imports during the Cultural Revolution.

Lin Biao’s death and the ongoing anti-ultra-leftist campaign gave Zhou more room to maneuver. Indeed, he went as far as to depict China’s wheat imports as market behavior. On August 21, during a conversation with the Canadian External Affairs Minister Mitchell Sharp, he said to Sharp that “China was no longer importing wheat because it was grain-deficient but because it found it more lucrative to buy wheat from abroad and free some its own rice for export at more favorable international prices.” From the market perspective, Zhou pledged that Canada could “count upon China as a continuing market for Canadian wheat.”¹⁴⁴

Around that time, the Soviet Union bought millions of tons of wheat from the United States. Its obvious crop failures must have given Zhou a sense of satisfaction since China had been claiming that its socialist model was purer and better than the Soviet one. In the conversation with Sharp, Zhou could not resist the opportunity to embarrass the Russians. He praised the Canadian farmers for their expertise and asked Sharp if the Russians had “sent anybody to find out” why “Canada had been so much more successful than the Soviet Union in achieving stable yields.”¹⁴⁵ Ironically, China was also hit by drought and soon began “scrounging”, to use the word of an American intelligence report, for world grain supplies.¹⁴⁶ This helped explain why the Chinese got so defensive over the August 29 articles on China’s drought, although at the time these sorts of reports were at most sporadic,

¹⁴³ Shangyebu Dangdai Zhongguo Liangshi Gongzuo Bianjiebu bian, *Dangdai Zhongguo Liangshi Gongzuo Shiliao* (The Documents of the Food Work in Modern China) (Beijing: Shangyebu, 1989)(Only for internal use), 500. The text of Zhou’s speech is available online through <http://www.etext.org/Politics/MIM/chinese/classics/zhangchunqiaocw/61-92/69.html>.

¹⁴⁴ John Burns, “Chou Eyes Canada for Wheat,” *The Washington Post*, August 21, 1972.

¹⁴⁵ Ibid.

¹⁴⁶ Bureau of Intelligence and Research, “Peking Scrounges for World Wheat Supplies,” 29 September, 1972, RG 59, Lot Files: 78 D 77, Box 8, EA/PRC Paris POL 1972, NARA-College Park.

Zhou did not enjoy the upper hand over the leftists for long. By the time the French representatives from the Louis Dreyfus Firm arrived in Beijing, the moderates and radicals in the Politburo had just begun an open argument about whether or not Lin Biao was an ultra-leftist or ultra-rightist.¹⁴⁷ During this battle, even the sporadic reports pointing to China's agricultural troubles could embarrass the moderates and lend leverage to the radicals. Moreover, these sporadic reports could become excessive after the wheat deal became public. In the early 1960s when China and the Soviet Union were both buying large quantities of wheat from the West, the American press had put China "on the same par as the Soviet Union" to a great extent.¹⁴⁸ Who could be sure that this time the American press would not do the same? Anticipating the worst, the concerned Chinese officials reduced the amount of the first purchase in early September, and managed to evade any media attention to their second purchase in late September.

Eventually it was Mao's attitude that would determine the direction of the "Criticize Lin Biao" campaign. Even by late June, he was still calling Lin a "leftist." He told the visiting Sri Lankan Prime Minister that "The chief backstage backer of the 'left faction' is now no longer with us, [he is] Lin Biao."¹⁴⁹ The deepening of the anti-leftist campaign, however, would

¹⁴⁷ In the first half of 1972, the mainstream was to criticize Lin as an ultra-leftist and Zhou attempted to take the opportunity to correct all sorts of "ultra-leftist" practices in all aspects of Chinese lives. When he attempted to extend his influence into the cultural area, the radicals, who usually controlled the propaganda organs, began to fire back. Between July and August, Zhou consistently criticized *The People's Daily* for being dogmatic. On August 8, Zhang Chunqiao and Yao Wenyan, both from the "Gang of Four," instructed the leaders of *The People's Daily* not to "go overboard" in the anti-leftist campaign and pointed out that it was "overboard" to criticize the kind of theory arguing that only spirit matters and spirit alone can do anything. In late September, Zhou drafted a National Day editorial, including a sentence saying, "We must criticize the rightist and leftist deviations, but especially the ultra-leftist tendencies." Yao Wenyan deleted this sentence from the final draft. See Teiwes and Sun, *The End of the Maoist Era*, 60-66.

¹⁴⁸ See, for example, Harry Schwartz, "Soviet and Chinese Farm Woes Could Affect World Markets," *New York Times*, January 23, 1961; Takashi Oka, "Peking Soft-Pedals Grain Deal," *Christian Science Monitor*, May 4, 1961; Kathleen McLaughlin, "U.N. Predicts Heavy Wheat Trade on Global Scale," *New York Times*, June 12, 1961; Stephen S. Rosenfeld, "Canada Wheat Deal is Soviet Black Eye In Clash with China," *The Washington Post*, September 17, 1963.

¹⁴⁹ Quoted in Teiwes and Sun, *The End of the Maoist Era*, 25.

inevitably threaten the very core ideas of Mao's revolution. By mid-December Mao had openly sided with the radicals and redefined Lin Biao as an "ultra-rightist."¹⁵⁰

Mao's redefinition of Lin Biao set limits to Zhou's efforts to battle the leftist tendencies in areas of economics as well as politics. In November, Zhou announced the signing of a substantial wheat contract with Canada. Meanwhile, he admitted that China suffered the worst drought since 1959.¹⁵¹ In February 1973, Zhou told Kissinger that China's grain production in 1972 dropped by four percent from 1971. He then indicated that China was ready to import wheat directly from the United States without going through a third country. However, Zhou still emphasized that China was self-sufficient, saying, "Our natural disaster last year also put a test to us, but it proved that our grain reserve were much better than before." Regarding the purposes of China's wheat importation, he basically repeated his 1967 speech. Regarding the exchange of rice for wheat, he lamented that "it is not like in the old days when we could exchange one ton of rice for two tons of wheat," thanks to the historic Soviet purchases. However, he stopped short of pointing to the market forces behind China's wheat importation and stressed that "many of the countries that need our supply of grain eat rice—Vietnam, Korea, Ceylon, Cuba and African countries."¹⁵²

By late 1974, talks pointing to the market forces in China's wheat deals had become absolute heresy in Beijing's ears. According to the United States Liaison Office in Beijing, on November 8, Chinese Vice Premier Li Xiannian told the visiting Japanese industrial group that because the United States had hinted at China's profiteering in the wheat deals, China would no longer import wheat from the United States. Li's statement was in reference to Kissinger's speech at the World Food Conference three days earlier, which indicated that the Soviet Union

¹⁵⁰ Ibid., 60-66.

¹⁵¹ "Chinese Grain," *The Washington Post*, November 12, 1972.

¹⁵² *FRUS, 1969-1976*, 18: 155.

had “been making profits out of its food deals.” The Soviets imported low-grade American grains to feed its livestock and exported more expensive wheat to its satellite countries. Li found it offensive that “the U.S. regards the USSR and China as being alike on this matter” because China also imported wheat from the United States and exported rice to other countries. He contended that China’s engagement in this trade was “not for the sake of profits,” but “to provide its people with [a] variety” of food.¹⁵³ With Beijing’s politics taking more of a turn to the left, combined with a good harvest and an increasing trade deficit, China soon asked the U.S. traders to postpone the delivery of the already-ordered wheat, and then canceled all the orders in early 1975.¹⁵⁴ U.S. wheat export to China did not resume until 1978.¹⁵⁵

The United States and China’s Economic Adjustment

Compared to the import of earth stations and aircraft, the wheat import appeared to be much more controversial to the Chinese. One important reason for this was that China, under leftist influence, emphasized industrial modernization over agricultural development. Since the founding of the PRC, China had followed the Soviet model of squeezing the agricultural sector while heavily investing in the industrial sector. Before 1960, China was a net grain exporter. Its agricultural exports sustained its industrial imports. This was another reason for Mao’s dismay in seeing China turn into an importer of grain.

¹⁵³ Telegram from the United States Liaison Office in Beijing to the Department of State, Peking 02046 210859Z, 21 November 1974. [Online version on December 19, 2008, available through the online catalog at <http://aad.archives.gov/aad/>].

¹⁵⁴ “The Prospects for Sino-US Agricultural Trade,” *U.S.-China Business Review* 2, no. 2 (1975): 15-17. This article mentioned two additional reasons for Beijing’s decision to stop importing American wheat. One was that China considered the United States a “residual supplier” because it had not recognized the Beijing regime. When China’s needs for wheat declined, it rewarded the limited contracts to those who had established diplomatic relations with Beijing. The other was that China was disappointed by the quality of the American wheat exports, some of which were tainted with TCK fungus.

¹⁵⁵ “US-Chinese Economic Relations,” table 1, undated, NLC-26-42-4-21 [electronic records], Jimmy Carter Library.

Following the disaster caused by the “Great Leap Forward,” the moderates strove to develop a more balanced economic structure by shifting the focus from industry to agriculture. In 1964, in an early draft of *The Third Five-Year Plan, 1966-1970*, the National Planning Commission proposed to place agriculture before industry and light industry before heavy industry. The main goal of this plan was to meet people’s basic needs such as food and clothing.¹⁵⁶ Mao, however, rejected this plan.

With the escalation of the Vietnam War on China’s southern border and the increase of the Russian troops on its northern border, Mao made a convincing argument to place the defense industry on the top of the agenda. When it came to agricultural investment, Mao changed the subject to “self-reliance,” saying that the farmers should rely on themselves and not ask the government for money or other material help. By late 1965, the revised *Third Five-Year Plan* had become completely focused on the defense industry and war-related infrastructure.¹⁵⁷

Following the Chinese-Soviet border clashes in 1969, the Chinese government carried out the so-called Third Front Construction campaign with full speed. This campaign aimed to build China’s industrial centers in the western hinterland. The Third Front was the key to China’s war preparation—since the west was harder to reach, the industries in the west would be less susceptible to an enemy’s attack than those near the eastern coast.¹⁵⁸ In many ways, the Third-Front campaign between 1969 and 1971 resembled the “Great Leap Forward.”¹⁵⁹ As Naughton noted, “This time there was no massive diversion of resources from agriculture, but investment

¹⁵⁶ See Wu, *Zhonghua Renmin Gongheguo Jingjishi*, v. 1, 631-636.

¹⁵⁷ Ibid.

¹⁵⁸ See *ibid.*, 680-693.

¹⁵⁹ It was called a “new leap forward” by Barry Naughton, Frederick C. Teiwes and Warren Sun, a “flying leap” by Bill Brugger, and “blind advance” by Wang Nianyi and MacFarquar. See Naughton, *The Chinese Economy: Transitions and Growth*, 75-76; Teiwes and Sun, *The End of the Maoist Era*, 49-54; Bill Brugger, *China: Radicalism to Revisionism* (Totowa: Barnes & Nobles Books, 1981), 120-142; MacFarquar, *Mao’s Last Revolution*, 316-317; Wang Nianyi, *Da Donglun de Shinian* (Ten Years of Great Upheaval) (Zhengzhou: Henan Renmin Chubanshe, 1988), 361-368.

surged and consumption was restrained as all efforts went to industrial construction.”¹⁶⁰ The overheated economy soon resulted in the so-called “three excesses”: “too many workers and employees, an overly high wage bill, and excessive urban sales of food grains,” which began to drain China’s grain reserve.¹⁶¹

Following Lin Biao’s death, Zhou gained unprecedented leverage to battle extreme leftists. Under his instruction in early 1972, the State Planning Commission began to criticize the leftist tendency of squeezing agriculture and light industry, saying, “Don’t forget that either at peace or at war our people and army need food to eat and clothing to wear.” Meanwhile, the commission began to take measures to roll back the industrial projects and redirect some investment to agriculture and light industry.

By August 1972, with the drought affecting the farm output, the food situation in the cities had become alarming. On August 19, the State Planning Commission submitted a report on the over-expanded economy to the Central Committee of the CCP and urged it to take immediate measures to curb the economic excesses.¹⁶² On August 21, Premier Zhou pledged that Canada could “count upon China as a continuing market for Canadian wheat.”¹⁶³ According to a later census in 1972, the Chinese government collected 39.65 million-tons of grain, but distributed 46.36 million-tons of grain to meet demand.¹⁶⁴

This food shortage explained why Beijing continued buying wheat from the United States despite its concern with publicity. At first the United States was probably an alternative to Australia, which along with Canada, was China’s main grain supplier in the 1960s. By 1971

¹⁶⁰ Naughton, *The Chinese Economy*, 75. See also MacFarquar, *Mao’s Last Revolution*, 38-39, 316-317.

¹⁶¹ Teiwes and Sun, *The End of the Maoist Era*, 51.

¹⁶² Chen Donglin and Du Pu ed., *Zhonghua Renmin Gongheguo Shilu* (The Annals of the People’s Republic of China) v. 3, 1972-1976 (Changchun: Jilin Renmin Chubanshe, 1994), 846.

¹⁶³ John Burns, “Chou Eyes Canada for Wheat,” *The Washington Post*, August 21, 1972.

¹⁶⁴ Wu, *Zhonghua Renmin Gongheguo Jingjishi*, v. 1, 671-678.

Canada had recognized the Beijing regime, while Australia still had not.¹⁶⁵ In April 1971, China notified the Australian Wheat Board that China would no longer import wheat from Australia. When China's needs for wheat increased again in August 1972, it turned to the French trader and agreed to buy wheat from the American market.¹⁶⁶ The fact that the United States kept official ties with Taiwan probably furthered Beijing's reluctance to publicize the deal. In fact, on September 19, when Ambassador Huang urged Kissinger to minimize the publicity around the deal, he indicated that the pace of the normalization process should decide the level of bilateral trade.¹⁶⁷

In early September, when the shortage turned from bad to worse, Beijing "swallowed its pride and sent an urgent invitation to the Australian Wheat Board." By late September, the two parties signed a contract for a million tons of wheat to be delivered the next year.¹⁶⁸ Given the context, it was no surprise that Beijing did not raise the publicity issue again with Washington even though the American press, excluding the second purchase, reported every single order that China placed in a similar manner as they did with the first purchase.¹⁶⁹

In general, this time the harvest problem did not disrupt life in the countryside. According to an American intelligence report entitled "Peking Scrounges for World Wheat Supplies," although China's farm output was disappointing in 1972, "there is, however, no evidence of serious farm difficulties or of disillusionment with the major farm development effort that Peking has mounted." It appeared as if the Beijing government had made a conscious choice not

¹⁶⁵ Australia recognized the PRC in December 1972.

¹⁶⁶ Bureau of Intelligence and Research, "Peking Scrounges for World Wheat Supplies," 29 September, 1972, RG 59, Lot Files: 78 D 77, Box 8, EA/PRC Paris POL 1972, NARA-College Park.

¹⁶⁷ For Huang's remark, see the quotation in the beginning of this chapter. *FRUS, 1969-1976*, 17: 1077.

¹⁶⁸ Bureau of Intelligence and Research, "Peking Scrounges for World Wheat Supplies."

¹⁶⁹ *Ibid.*

to squeeze the farmers to solve the food crisis in the urban areas even though it meant redirecting considerable investment from industrial construction to grain importation.

It was the breakthrough in Sino-American relations that made China's adjustment of economic priorities possible. When war became less likely, the Third-Front construction became less urgent. Since the beginning of 1972, Chinese officials in the economic departments had begun shifting their attention from war preparation to the production of basic consumer goods. To meet people's needs for food and clothing, in February Mao approved a proposal to import two complete chemical fertilizer plants and four artificial fiber plants from France and Japan. The total worth of the deal was \$400 million. This was the beginning of a new surge in the importation of industrial and technological goods that had not existed since the 1950s. By January 1973, the State Planning Commission combined various import proposals into one report calling for \$4.3 billion in new imports. The State Council approved this report in March followed by an increase in the investment to \$5.18 billion. By 1976 this program had resulted in twenty-six imported plants, twenty-two of which were imported in 1973 and 1974. In the 1950s, China's imports were mostly from the Soviet Union, and 97% of them went to heavy industry. This time China's imports were mostly from the capitalist countries, and 63.84% of the imports were aimed to improve the production of basic consumer goods.¹⁷⁰

Among the twenty-six complete plants were thirteen chemical fertilizer plants, eight of which were from the U.S. Pullman Kellogg Company. Following Nixon's visit, Kellogg began to correspond with the China National Technical Import Corporation (TECHIMPORT). In October, at TECHIMPORT's invitation, a five-man Kellogg team arrived in Beijing, where they detected China's particular interest in fertilizer technology and "volunteered to submit an ammonia plant

¹⁷⁰ Chen Jinhua, *Guoshi Yishu*, 3-40; Chen Donglin, "Ershi Shiji 50-70 niandai Zhongguo de duiwai Jingji yinjin" (China's Imports in the 1950s and 1970s), *Shanghai Xingzheng Xueyuan Xuebao*, n. 6, 2004.

proposal”. Early the next year a seven-man team went to China to negotiate for a sale of one ammonia plant. When the two parties were about to consummate the deal, the Chinese asked for two more plants. After two more months of negotiations, in June they signed a contract for three plants. As the Kellogg team was leaving for the United States, the Chinese indicated that they wanted five additional plants. Five months later they signed the second contract for the additional five.¹⁷¹ Chen Jianhua, one of the Chinese officials who carried out the import of chemical fertilizer and artificial fiber plants, recalled that compared to the Soviet technology that China used to import, Western technology impressed the involved Chinese so much more. This probably explained China’s additional orders in such a short amount of time.¹⁷²

Together the two contracts were worth \$200 million, representing the largest non-agricultural U.S. sales to China between 1972 and 1978. With the delivery of the Boeing aircraft complete and that of wheat halted, the delivery of the Kellogg plants made up for the bulk of U.S. exports to China in 1975. After Kellogg completed its delivery in the first half of 1976, American exports to China in the second half of the year plummeted to levels below that of 1972. In 1976 the United States “registered its first trade deficit with China since 1971.”¹⁷³

The fluctuation of Sino-America trade reflected Mao’s incoherent guidance after Lin Biao’s death. On the one hand, Mao insisted that the Cultural Revolution was basically correct despite some shortcomings. This led the radicals to control the political discourse and prevented the moderates from reversing the course as long as Mao was alive. On the other hand, Mao’s

¹⁷¹ Ammonia is a key compound of nitrogen. See Walter M. Bury, “Pullman Kellogg: A Case Study,” in *China Trade: Prospects and Perspectives*, ed. David C. Buxbaum, Crossandra E. Joseph, and Paul D. Reynolds (New York: Praeger Publishers, 1982), 288-297.

¹⁷² Chen Jinhua, *Guoshi Yishu*, 38.

¹⁷³ *Ibid.*; Memorandum prepared by the Office of Economic Research, “US-Chinese Trade Relations,” July 1977, NLC-6-8-4-4-9 [electronic records], Jimmy Carter Library.

own calculations in foreign relations and his own desire for modernization led him to give the moderates a relatively free hand to expand foreign trade with the West.¹⁷⁴

The opening in the early 1970s inevitably raised the issue of domestic economic reform that Mao could not approve. In the long run, as Chen Jinhua indicates, these imported plants demonstrated to the involved Chinese the level of industrialization in the Western countries and made them wonder as to which direction China should go in order to reach that level.¹⁷⁵ A far more urgent question at the time was how to pay for these imports. China paid cash for the Boeing purchase to maintain its self-reliant posture. To expand its foreign exchange reserves, China had to increase its exports. Since China's major trading partners were capitalist countries, an expansion of exports required the Chinese producers and exporters to study the capitalist market. As Chen Yun said in 1973, "If we do not study capitalism, we would not get our share of the world market."¹⁷⁶ The issue of payment thus led to some reforms in the Canton Fair, an increasing tolerance of banking, acquiescence of certain forms of credit arrangements, and even contemplation of introducing direct foreign investment to China. These moves encountered fierce opposition from the radicals and exacerbated the political struggles from late 1973 to 1976. Nonetheless, before the end of the Cultural Revolution, the moderates had developed a sophisticated idea about the relationship between opening and reform which they would put into practice when the time was ripe.

¹⁷⁴ For an introduction to the complicated relations between Mao, the radicals, and the moderates, see Teiwes and Sun, *The End of the Maoist Era*, 3-23.

¹⁷⁵ Chen Jinhua, *Guoshi Yishu*, 38-39.

¹⁷⁶ Wu, *Zhonghua Renmin Gongheguo Jingjishi*, v. 1, 716-717.

CHAPTER 3

Regularizing Sino-American Trade

1972-1974

Rather than pushing products on the Chinese—which particular agencies in response to prodding from the private sector may wish to do—we should attempt to exchange information on products and methods of trade so that importers and exporters on both sides know what the other country had and wants to sell or buy, and how to engage in trade.

-- U.S. Senior Review Group, March 1972¹

We have imported satellite earth stations from the United States. We also plan to import aircraft from the Boeing Company. If the deal were concluded, we would have to expand our exports to the United States.... [We] can export more handicrafts, light textile industrial products, native produce [to the United States]. As long as it does not affect [our supplies to] the Third World Countries, [we] can also export more minerals [to the United States].

-- Guangdong Provincial Foreign Trade Working Conference, September 1972²

Ever since the opening of our new relationship with the People's Republic of China (PRC), the Chinese have been pressing us to grant Most Favored Nation (MFN) status to their goods entering the U.S. market. In both official contacts and discussion with American businessmen, the Chinese have emphasized their belief that lack of MFN is discriminatory, a significant obstacle to U.S.-PRC trade, and inconsistent with the U.S. commitment in the Shanghai Communiqué to 'facilitate the progressive development' of bilateral trade on the basis of 'equality and reciprocity.'

--Memorandum by Marshall Green and Julius L. Katz, March 30, 1973³

The American and Chinese governments agreed in the Shanghai Communiqué of July 28, 1972 "to facilitate the progressive development of trade between their countries." To implement

¹ *FRUS, 1969-1976*, 17: 864.

² Guangdong Provincial Foreign Trade Working Conference staff, "An Overview of China's Trade with the Countries in Western Europe, North America, Latin America, and the Oceania" (Dui Xi'ou, Beimei, Lamei, Dayangzhou guojia maoyi qingkuang jieshao), Guangdong Provincial Foreign Trade Working Conference Reference Materials, n. 2, September 1972, 324-2-122, Guangdong Provincial Archives, Guangzhou, China.

³ Memorandum from Marshall Green, Assistant Secretary of State for East Asian and Pacific Affairs and Julius L. Katz, Acting Assistant Secretary for Economic and Business Affairs to William J. Casey, Under Secretary of State for Economic Affairs, 30 March 1973, RG 59, Central Files 1970-1973, FT 2 CHICOM-US, NARA-College Park.

this agreement, however, the two governments adopted different approaches. The American government emphasized infrastructure-building through official negotiations and institutionalized contacts, while the Chinese government focused on immediate economic gains by dealing with individual American companies. As a result, the two governments could not reach any further agreement on trade, although their trade volume multiplied between 1972 and 1974.

Washington valued political over economic interests that the development of Sino-American trade could produce. From the economic perspective, Washington predicted, “Despite the historic allure of the China market, the PRC is unlikely soon to become a major market for U.S. goods.” In March 1972, the United States estimated that the volume of U.S.-PRC trade from 1972 to 1977 would be “between \$100 and \$600 million annually.”⁴ This proved to be quite an underestimation when U.S.-PRC trade broke \$900 million in 1974. China’s shopping spree was impressive, yet its impact on the overall American economy was negligible. In 1974, U.S. exports to China accounted for less than one percent of total U.S. exports.⁵ In the short run, therefore, Washington perceived no significant economic stake in China.

From the political perspective, however, Washington believed that the development of U.S.-PRC trade would provide “tangible evidence of momentum in the improvement of relations between the two countries.” Moreover, trade could be “an area of positive and constructive discussion in both Ambassadorial and working level contacts in Paris.” This discussion would

⁴ The Response to NSSM 149, 24 March 1972, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-190, NSSM Files, NSSM 149, NARA-College Park, 2-3. NSSM 149 was issued on March 10, 1972, in which the President “directed a study of ways in which the statement on trade in the Joint US-PRC Communiqué of February 28, 1972 should be implemented.” NSSM 149 is printed in *FRUS, 1969-1976*, 17: 847-848. The Senior Review Group held several meetings to discuss the Response to NSSM 149. See *FRUS, 1969-1976*, 17: 864-872.

⁵ In 1974, U.S. exports to China amounted to \$819 million, and U.S. total exports in goods amounted to \$98,306 million. See “US-Chinese Economic Relations,” table 1, undated, NLC-26-42-4-21 [electronic records], Jimmy Carter Library; and U.S. Census Bureau, “U.S. Trade in Goods and Services,” online version on March 15, 2009, available at <http://www.census.gov/foreign-trade/statistics/historical/gands.pdf>.

help “build trust” between the American and Chinese negotiators and set “a positive tone for discussion of more difficult matters.” “The major purpose of such contact,” a U.S. governmental study paper declared, “is to develop negotiating patterns favorable to the improvement of political relations.”⁶

Washington considered the most pressing issues in Sino-American trade as the settlement of U.S. private claims against the PRC and the PRC’s blocked assets in the United States. The issue was a legacy of U.S.-PRC antagonism. Between 1949 and 1950, the PRC government expropriated American-owned properties in China and the American government blocked China’s bank accounts and assets in the United States. Without settling this issue, an American claimant could file a suit in U.S. court to claim Chinese commodities in U.S. territories. The legal harassment would certainly outrage the Beijing government and embarrass the Nixon administration. Settlement of this issue would not only remove the legal impediment to Sino-American trade but also provide very “tangible evidence” of the improvement in Sino-American relations. Therefore, beginning in 1972, the United States persistently pushed for an agreement with the PRC on this issue.

As for contact-building, after Nixon’s visit to China, Washington envisioned three forms of contacts. First of all, the routine governmental contact would be maintained through the Paris channel, which was replaced by the PRC and the U.S. liaison offices in the summer of 1973. Secondly, Washington hoped that the American Consulate General and American Chamber of Commerce in Hong Kong would expand their cooperation to help American businessmen to establish contacts with the PRC. Finally, Washington encouraged the formation of “a prestigious,

⁶ The Response to NSSM 149, 3.

private ‘Sino-American Trade Council’” that would establish liaison with the CCPIT in Beijing.⁷ Through the three channels, Washington sought not only to resolve the problem of private claims, but exchange market information and foreign trade regulations with Beijing. From both political and economic perspectives, Washington desired a long-term sustainable development of Sino-American trade and endeavored to build a proper infrastructure to promote that development.

Beijing, however, was less interested in promoting trade through the official channel. It insisted that Sino-American trade should proceed on a people-to-people basis before the two countries established full diplomatic relations. It emphasized that trade negotiations should be conditional on political negotiations. An agreement on the settlement of private claims and blocked assets would indicate that Sino-American trade negotiations went ahead of their political negotiations. Moreover, a settlement of the private claims would imply Beijing’s admission that its confiscation of American properties had been wrong. These implications provided no motivation for Beijing to rush into a settlement with the United States.

Economically, Beijing perceived immediate interests from the opening of the U.S. market. As discussed in Chapter II, the U.S. exports to China played a critical role in China’s economic development and adjustment. From Beijing’s perspective, the most pressing problem in Sino-American trade was that of a trade deficit. In order to sustain the rapid development of their interaction, China felt that it had to aggressively expand its exports to the United States. For

⁷ Ibid., 18-24. As a civil organization in name, the CCPIT was a key instrument for Beijing to develop economic relations with Western countries on a people-to-people basis. In New York, Kissinger and Huang Hua, Chinese Ambassador to the United Nations, maintained informal but close contact. In 1972 and early 1973, most of their meetings focused on strategic issues concerning Vietnam and the Soviet Union. The memorandums of many of their conversations are found in *FRUS 1969-1976*, E-13. It is also worth noting that before the establishment of the PRC Liaison Office in Washington, China indicated that the official and semi-official Americans wishing to visit China could apply for visas through the Paris channel, but in general the private U.S. citizens wishing to visit China should apply for visas at Chinese embassy in Ottawa. See Telegram from the American Embassy in Paris to the Department of State, 31 March 1972, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

Beijing, therefore, the focal point of Sino-American economic contacts had to be the Chinese Export Commodities Fair at Canton. In the meantime, Beijing became very interested in MFN status. In order to expand Chinese exports to the United States, Beijing would not mind a trade-off between a settlement of the private claims and MFN status.

America's Road to Canton

China's first concrete step to facilitate Sino-American trade was to invite American businessmen to attend the Chinese Export Commodities Fair, also known as the Canton Trade Fair. The Canton Trade Fair originated from an attempt to break the U.S.-led Western embargo on China. It played a critical role in the shift of China's foreign trade orientation from the socialist to the capitalist countries. U.S. participation in the fair symbolized a remarkable success for China's struggles against international isolation.

The Canton Trade Fair became institutionalized in March 1957, when the Chinese Export Commodities Exhibition Hall was inaugurated as a permanent institution responsible for organizing the fairs and maintaining the exhibition halls between the fairs. The Exhibition Hall was under the leadership of both the Chinese Ministry of Foreign Trade and the Guangdong Provincial Foreign Trade Bureau.⁸ Beginning in 1957, the Canton Trade Fair was held twice a year. The spring fair is normally between April 15 and May 15, and the fall fair is normally between October 15 and November 15.⁹ In the first two years, the Canton Trade Fair was

⁸ Between October 1955 and May 1956, the Guang Dong Province held three provincial export commodities exhibits. In November 1956, the Chinese Ministry of Foreign Trade and the Guangdong Provincial government co-hosted a national export commodities exhibit in Guangzhou. By March 1957, the State Council had approved to establish the Chinese Export Commodities Exhibition Hall in Guangzhou and turned the fair a permanent national event. See Zhongguo Chukou Shangpin Jiaoyihui, *Baijie Huihuang* (100 Sessions Glory: memorial of 100 Sessions CECF) (Nanfang Ribao Chubanshe: 2006), 6-12.

⁹ In 1959, the fall fair was delayed half a month due to the delayed completion of the new exhibition hall. In 1967, the fall fair was delayed a month due the intervention of the red guards. See *ibid.*, 22.

confined to China's export trade. Beginning in 1959, the fair's function was expanded to include China's import trade as well.¹⁰

From the beginning, the Canton Trade Fair was primarily devoted to the market outside the Soviet orbit. It was initially designed to take advantage of the middlemen in Hong Kong and Macao in order to access the Western market. Among the 1,223 attendees at the Spring Fair of 1957, over 80 percent were from Hong Kong, Macao, Singapore, and Malaysia. These were the people who were involved in over 60 percent of China's exports made at the fair. Throughout the 1960s, overseas Chinese were the largest group at the fair. However, during this time, China greatly increased the number and diversity of the invitees to the fair. By the time of the Spring Fair of 1972 when the first American group attended the fair, the Japanese, Western Europeans, and Canadians had become the frequenters of the fair. At the 1972 Spring Fair, 74 countries and regions were represented, compared to only 19 countries and regions at the 1957 Spring Fair.¹¹

The Canton Trade Fair proved to be a major instrument for China to expand its trade with the capitalist countries with which China did not have formal diplomatic relations. In the 1950s, 80 percent of China's foreign trade was conducted with the socialist countries on a government-to-government basis and in the form of tally trade. The Canton Trade Fair opened a channel for the private businessmen from the capitalist countries to do business with China on a people-to-people basis. The expansion of the Canton Trade Fair coincided with the shrinkage of China's trade with the Soviet Union and other Socialist countries. In 1972, over 75 percent of China's foreign trade was conducted with the non-communist countries.¹² In the same year, over 50 percent of Chinese total exports were contracted at the Canton Trade Fair. Moreover, it was

¹⁰ *Ibid.*, 26.

¹¹ *Ibid.*, 14-17, 137-137.

¹² Central Intelligence Agency of National Foreign Assessment Center, "China, Foreign Trade Policy in the 1970s," August 1978. NLC-26-42-5-2-0 [electronic records], Jimmy Carter Library, 4.

usually at the Canton Trade Fair that the invited Western businessmen made their first personal contacts with Chinese trade officials. These personal contacts could lead to further export or import negotiations after the fair.¹³

Soon after the Canton Trade Fair became institutionalized, some American businessmen sensed the emerging opportunity in China and attempted to obtain invitations to attend. For over a decade, the Beijing government rejected these attempts and blamed the disruption of Sino-American trade on the American government. In October 1962, in an instruction to the Shanghai Foreign Trade Bureau, the Chinese Ministry of Foreign Trade standardized China's reply to the Americans' inquiry about the possibility of Sino-American trade. According to the instruction, the reply must include the following content:

We have always maintained that [China is willing] to develop economic relations with all nations on the basis of equality and mutual benefit. The American government, however, has been antagonistic to us all along. It has been occupying our territory of Taiwan, conspiring to manufacture "two Chinas," and imposing a total embargo on China that prohibits American corporations and businessmen from doing business with China. Until the American government changes its hostile policy against China, Sino-American trade could not possibly proceed. The American government is solely to blame [for the current situation].¹⁴

In August 1963, the Chinese Export Commodity Exhibition Hall reported to the Ministry of Foreign Trade that it had received a letter from American citizen Daniel Tretiak who requested to attend the upcoming fall fair. The Ministry of Foreign Trade directed the Exhibition Hall to reply according to the above principle, indicating that there was no need for the Exhibition Hall to seek further instructions to answer this kind of request.¹⁵

¹³ *Baijie Huihuang*, 91.

¹⁴ "Guanyu dui Meiguo ren laixin chuli wenti de pifu" (Instructions On How to Reply the Letters from the Americans), from Chinese Ministry of Foreign Trade to the Shanghai Foreign Trade Bureau, 16 October 1962, 304-1-96, Guangdong Provincial Archives, Guangzhou, China.

¹⁵ "Guanyu Meiguo ren laixin chuli wenti de pifu" (Instructions On How to Reply the Letters from the Americans), from Chinese Ministry of Foreign Trade to the South Central Regional Foreign Trade Bureau, 14 September 1963, 304-1-120, Guangdong Provincial Archives, Guangzhou, China.

In some cases, the American businessmen who sought to trade with China received China's negative replies and felt offended. In 1966, an owner of a small American company wrote to a Chinese provincial Tea and Native Produce Export and Import Corporation to dispute China's claim that the American government was responsible for the disruption of Sino-American trade. He insisted that the American government was not antagonistic to the People's Republic of China and indicated that the Chinese themselves were responsible for the division of China. He dismissed China's accusation that the American government had dispatched military aircraft to the Chinese territory to provoke war on the ground that "everyone in the world knows that the American government and people are devoted to peaceful existence...."¹⁶

Moreover, this American businessman argued that China should not confuse the U.S. government with American private business. He pointed out that the government did not own or control the thousands of small private businesses in the United States. As he emphasized, "[My company] completely belongs to me and is run according to my will and through my hard work." It was a pity, according to him, that China had such unjustified negative views about American small trading firms. Finally, he invited the Chinese to visit the United States, which he wished would help the Chinese change their opinions about American small businessmen.¹⁷

Chinese trade officials replied by repeating China's official line, "You have turned the truth upside down. As we disclosed in our letter dated March 26, the American policy towards China has been hostile and interfering all along." Furthermore, the Chinese provided the most recent evidence to prove America's antagonism to China, "At the dawn of August 29, above a routine navigation line in the Beibu Gulf, the American imperialist warplanes opened fire on Chinese merchant ships, sinking one ship, damaging another, killing nine Chinese sailors, and

¹⁶ Zi Ding, *Li Qiang Zhuan*, 303-304.

¹⁷ *Ibid.*

injuring seven. This is the hard fact.” Finally, the Chinese indicated that if the American people were interested in trading with the Chinese people, they should ask the American government to remove the obstacles to Sino-American trade.¹⁸

The local trade officials immediately referred their correspondence with the American business owner to the Ministry of Foreign Trade. According to his biographer, Vice Foreign Trade Minister Li Qiang appeared to be bothered by the ideological overtone in the letters from both sides. However, Li implied that any kind of communication was better than no communication at all. He commented to his staff, “I wish that soon I would meet American trade officials or businessmen in my office. When we meet, no matter what criticisms we exchange, it would be a progress to just meet and shake each other’s hands.”¹⁹

In other cases, the communications before 1972 were only one-way from American businessmen to Chinese trade officials. For instance, Murry Berger, president and chief executive officer of Seabrook International Foods, decided in 1967 that his company “should be opening trade with the PRC.” From 1967 to 1972, he wrote twice a year to China to request an invitation to attend the Canton Trade Fair. In the letter, he introduced his company and described fully his intent to import frozen shrimp and other Chinese goods. He also enclosed his company’s annual reports in the mail. Not until April 1972 did he receive a response from China. “On April 1, 1972,” as he told Rosalie L. Tang in an interview, “I received a cable asking me to attend the Fair. At first, I thought it was a joke played by somebody who knew that I had communicated with China.”²⁰

¹⁸ Ibid., 304. In Vietnam, Beibu Gulf is called the Gulf of Tonkin.

¹⁹ Ibid., 305.

²⁰ Tung, *U.S.-China Trade Negotiations*, 178-190.

Making Rules for Sino-American Trade

Berger was one of the first beneficiaries of China's decision to invite American businessmen to attend the Canton Trade Fair. On March 22, 1972, the Chinese Ministry of Foreign Trade issued a document entitled "On the Issue of Sino-American Trade." The document was to give instructions to the Chinese Foreign Trade Corporations and local trade bureaus on how to conduct trade with the United States.²¹ The document indicated that the Chinese government had decided to invite thirty to forty American businessmen to attend the upcoming spring fair. To select the invitees, according to the document, the preference should be given to those friendly importers "who have consistently called for the opening of Sino-American trade and made some efforts for that end, and have real potentials to become China's customers."²² Berger fit the description perfectly and duly received his invitation.

Evidently, China hoped to break into the U.S. market via the Canton Trade Fair. Other invitees falling in the category of potential buyers included representatives of three department stores—Bloomingdale's, Macy's California, and Neiman-Marcus.²³ The document of March 22

²¹ The Chinese government monopolized China's foreign trade through the State Foreign Trade Corporations established under the Ministry of Foreign Trade. The State Foreign Trade Corporations recommended invitees to the Canton Trade Fair. They made direct contacts with foreign importers and exporters on behalf of Chinese producers and end users. By the end of 1978, there were eleven of the State Foreign Trade Corporations, including China National Machinery Import and Export Corporation, China National Metals and Minerals Import and Export Corporation, China National Chemicals Import and Export Corporation, China National Technology Import Corporation, China National Cereals, Oils and Foodstuffs Import and Export Corporation, China National Textiles Import and Export Corporation, China National Native Produce and Animal By-products Import and Export Corporation, China National Light Industrial Products Import and Export Corporation, China National Arts and Crafts Import and Export Corporation, China National Instrument and Apparatus Import and Export Corporation, and China National Foreign Trade Transportation Corporation. For the evolution of the State Foreign Trade Corporations, see Shen ed., *Dangdai Zhongguo Dui Wai Maoyi*, v.1, 90-101. See also Kenneth Wang, "Foreign Trade Policy and Apparatus of the People's Republic of China," *Law and Contemporary Problems*, v. 38, n. 2 (Summer-Autumn 1973), 182-200.

²² Chinese Ministry of Foreign Trade, "Guanyu Zhongmei Maoyi Wenti."

²³ NCUSCT, "U.S. Participants at the Kwangchow Fairs, 1971-1973," The National Council for U.S.-China Trade records, Box 72, Canton Fair—Fall 1973, General R. Ford Library. The representative of Macy's California attended the 1972 Canton Trade Fair on invitation of San Francisco Chamber of Commerce.

required Chinese trade officials at the Canton Trade Fair to try their best to satisfy American buyers' needs:

Use the 1972 export list for the United States compiled by our ministry as the reference to conduct export business with the Americans.²⁴ For the items not on the U.S. list, if the Americans desire to purchase and we have enough supplies, [we] may consider quoting prices and make sales. [We] must make sufficient preparations for export [to the United States]. [We] must strictly control the qualities of the commodities for export and rigorously abide by the contracts [with the Americans]. When selecting the samples of the export commodities, [we] must pay attention to the specifications and qualities of them. [We] should try our best to prepare more samples to increase Americans' awareness of our export commodities.²⁵

Apparently, the Ministry of Foreign Trade allowed the officials on the floor to take some initiatives to advance China's exports to the United States. Moreover, the document asked the Chinese trade officials at the Canton Trade Fair to "learn about American market characteristics and trade practices" through their communications with the American attendees.²⁶ The information would certainly assist the Chinese producers to adjust their products to make further inroads into the American market.

In addition to potential buyers, China also prepared to invite some American exporters "who might sell advanced technology and equipment to China."²⁷ According to this principle, for instance, China invited the representatives from the Boeing Company and RCA Global Communications to attend the 1972 Spring Canton Fair.²⁸ The document of March 22, however, restrained officials on the floor from making moves on their own regarding China's imports from the United States. It emphasized that these should comply with the import plan that had specified the items that China could import from the United States. In principle, as it stated, China should

²⁴ As a feature of the planned economy, the Beijing government planned China's foreign trade. The Ministry of Foreign Trade was responsible for making export plans, which would specify the categories and quantities of the goods that China planned to export to different countries and regions. The State Planning Commission, with the cooperation of the Ministry of Foreign Trade, was responsible for making import plans. See *Dangdai Zhongguo Dui Wai Maoyi*, v. 1, 66-67.

²⁵ Chinese Ministry of Foreign Trade, "Guanyu Zhongmei Maoyi Wenti."

²⁶ Ibid.

²⁷ Ibid.

²⁸ NCUSCT, "U.S. Participants at the Kwangchow Fairs, 1971-1973."

not import U.S. goods that were not on the U.S. import list. For the items that China needed but the U.S. list did not include, if the Americans offered better prices and supplies than other countries, Chinese officials could submit requests to the Ministry of Foreign Trade to make exceptions. Finally, the document advised Chinese trade officials not to inquire of American businessmen about the prices of American commodities for information purposes.²⁹

The document explicitly stated that China preferred direct trade with the United States. When necessary, however, it permitted transit trade through Hong Kong and other third countries and regions. It also officially acknowledged that it was acceptable to trade with American overseas companies and to purchase third country-manufactured goods that contained American-made components. It instructed, however, that Chinese trade officials should give preference to the locally-owned companies over American subsidiaries in a third country.³⁰

Beijing's preference to circumvent the middlemen limited the role of the American Chamber of Commerce in Hong Kong as a point of contact between the United States and the PRC. According to the American Consulate General in Hong Kong, by November 1972 the Chamber had "had little success in its approaches to PRC organizations in Hong Kong, including the China Resources Company."³¹ With the Chinese trade deficit with the United States soaring, Beijing later became more anxious to increase the transit trade through Hong Kong to help pay for China's imports. In particular, they attempted to use the Hong Kong channel to evade the discriminatory tariff rates that the United States imposed on Chinese goods. On March 23, 1972, the American Consulate in Hong Kong reported that the Chinese General Chamber of Commerce

²⁹ Chinese Ministry of Foreign Trade, "Guanyu Zhongmei Maoyi Wenti."

³⁰ Ibid.

³¹ Telegram from American Consulate General in Hong Kong to the Department of State, 9 November 1972, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

in Hong Kong indicated that Beijing had ordered it to expand contacts with American businessmen in Hong Kong.³²

Beijing had predicted that processing and packaging could pose problems for Chinese exports to the United States. The Hong Kong businessmen used to transship Chinese goods to the United States; sometimes imported Chinese raw materials, processed them in Hong Kong, and then exported the finished products to the United States. The document of March 22 indicated that Beijing accepted this practice, probably because China lacked the required processing technology. Sometimes the Hong Kong businessmen only changed the packages of the imported Chinese goods in Hong Kong and then shipped them to the United States. In this case, the document called on the concerned Chinese to improve the packaging of Chinese goods to sell them to the United States directly.³³

The document indicated that China was not yet prepared for direct shipping. For the time being, China planned to rely on transshipment via Hong Kong or Vancouver, or chartered third country vessels, to complete Sino-American transactions. The document explained that this decision was based on the fact that the Sino-American trade volume would be very low in the near future.³⁴ It did not mention, however, that the American government had not removed the legal restrictions on direct shipping between the two countries. Not until August 24, 1972 did the U.S. government exempt Chinese or Chinese-chartered cargoes at U.S. ports from possible attachment. Not until November 22, 1972 did the U.S. government permit U.S. ships and aircraft to call at Chinese ports.³⁵ To facilitate the transportation of the large quantities of wheat that

³² Telegram from American Consulate General in Hong Kong to the Department of State, 23 March 1973, *ibid.*

³³ Chinese Ministry of Foreign Trade, "Guanyu Zhongmei Maoyi Wenti."

³⁴ *Ibid.*; "Conversation between Hale Boggs and Li His-Fu, First Deputy Director of the Chinese Council for The Promotion of International Trade (CCPIT) at the CCPIT Office In Peking, June 29, 1972," Ford Congressional Papers, Box 219-Legislative File, 27, Gerald R. Ford Library.

³⁵ See Chapter 1 of this dissertation, footnote 53 and Chapter 2 of this dissertation, footnote 110.

China bought from the United States, in April 1973, a Beijing-controlled shipping company in Hong Kong, Far East Enterprising Company, sent officials to the United States to arrange direct shipping services between U.S. ports and the PRC.³⁶

During the 1972 Spring Canton Trade Fair, in response to many specific questions raised by the Chinese Foreign Trade Corporations, the Ministry of Foreign Trade issued two more documents on Sino-American trade. The April 21 document dealt with currency and banking issues. In principle, it permitted the use of U.S. dollars in—and only in—Sino-American trade. In practice, to take advantage of the continuing depreciation of U.S. dollars, it encouraged Chinese trade officials to use U.S. dollars to pay for China's imports from the United States, while calling them to charge the RMB for China's exports to the United States. If the American side refused to use the RMB, according to the document, the Chinese side should refuse to use U.S. dollars. In that case, the two sides could use pound sterling or other mutually-agreed currency to settle their accounts. As far as banking was concerned, this document directed the Chinese Bank to establish working relations with the third country banks in the United States to facilitate the transactions between the Chinese Foreign Trade Corporations and their American counterparts. Due to the fact that the United States had blocked Chinese bank accounts in the United States since 1950, China refused to establish direct relations with American banks.³⁷

The April 28 document emphasized the principle of centralization regarding Sino-American trade. The document of March 22 had required the Foreign Trade Corporations to submit their recommendations of American invitees to the Canton Trade Fair to the Ministry of

³⁶ Telegram from American Consulate General in Hong Kong to the Department of State, 19 April 1973, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

³⁷ Chinese Ministry of Foreign Trade, "Guanyu dui mei Maoyi Jiesuan Wenti" (Instructions on How to Settle an Account in Sino-American Trade), 21 April 1972, Ibid.

Foreign Trade for final approval.³⁸ The April 28 document stressed that the main offices of the Chinese State Foreign Trade Corporations should directly control every aspect of Sino-American transactions.³⁹ The branch offices must report any trade proposals directly or indirectly involving the United States to the main offices for further instructions. They must refer any questions raised by the American businessmen via mail or telephone to the main offices. They should inform the Americans that the main offices would answer their questions, or advise the American businessmen to contact the main offices directly.⁴⁰

The 1972 Spring Canton Trade Fair

On April 7, 1972, through the Paris channel, the Chinese informed the Americans that the Canton Trade Fair had “sent invitations to representatives of more than 30 American industrial and commercial associations and corporations which had requested trade with [the] PRC.”⁴¹ According to the statistics of the NCUSCT, at least 57 private American citizens attended the 1972 Spring Canton Trade Fair, including representatives from dozens of American companies and several American trade organizations, Howard Tucker from ABC News, and five individuals.⁴² Two of the most special American guests that the fair greeted were U.S. Senators Mike Mansfield, Democrat from Montana, and Hugh Scott, Republican from Pennsylvania, who

³⁸ Chinese Ministry of Foreign Trade, “Guanyu Zhongmei Maoyi Wenti,” March 22, 1972. Generally speaking, the Canton Trade Fair would issue invitations to the foreign companies recommended by the Chinese State Foreign Trade Corporations.

³⁹ The main offices of the State Foreign Trade Corporations were in Beijing and the branch offices spread in the key cities throughout China. see *Dangdai Zhongguo Dui Wai Maoyi*, v. 1, 90-101; and Kenneth Wang, “Foreign Trade Policy and Apparatus of the People’s Republic of China.”

⁴⁰ Chinese Ministry of Foreign Trade, “Youguan Zhong Mei Maoyi zhong jige Juti Wenti” (Instructions on Several Specific Questions in Sino-American Trade), 28 April 1972, *Ibid*.

⁴¹ Telegram from American Embassy in Paris to the Department of State, 7 April 1972, RG 59, Lot Files: 94D176, Box 5, China-Paris Channel Paper, March 1972-April 1973, NARA-College Park.

⁴² NCUSCT, “U.S. Participants at the Kwangchow Fairs, 1971-1973.” China indicated that it invited 42 Americans representing 38 companies to the 1972 Spring Trade Fair. See telegram from American Embassy in Paris to the Department of State, 13 September 1972, NARA-College Park.

visited the fair on May 1 before they concluded their two-week visit to China.⁴³ At the fair, the American traders purchased \$5 million worth of Chinese goods.

The American attendees generally reported home that they received a “warm and enthusiastic” reception and “very favorable treatment.”⁴⁴ As American business historian Randall E. Stross points out, the first American attendees felt a deep sense of history about their presence at the fair.⁴⁵ Martin F. Klingenberg, one of the first attendees, noted that “all the Americans at the Fair were going around inviting just about everybody to visit America.”⁴⁶ The Americans believed that they were special guests and were “eager to find evidence that Chinese were indeed according them special privileges.” According to Stross, the American attendees “reported home that the Dong Fang Hotel had added apple pie to welcome the Americans, though in fact it had been on the menu long before and was an established favorite of the German guests.”⁴⁷

In order to break into the new market, the Chinese seemed to have paid special attention to their new American guests. They usually granted appointments that the Americans requested instantaneously and made “special allocations” of Chinese goods to the Americans.⁴⁸ The Chinese Native Produce and Animal By-Products Corporation reported that it sent at least group

⁴³ Itinerary of Senators Mansfield and Scott’s Trip to China, Nixon Presidential Materials, NSC Files, Box 1038, Files for the President—China Material, China, Mansfield/Scott Trip to China [April–May 1972], NARA-College Park.

⁴⁴ Telegrams from American Consulate General in Hong Kong to the Department of State, 2 & 19 May 1972, RG 59 Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

⁴⁵ Stross, *Bulls in the China Shop*, 4-5

⁴⁶ Memorandum of Conversation between Martin F. Klingenberg, head of the China Trade Association, and W. Graham Metson, officer of Asian Communist Affairs, Bureau of East Asian Pacific Affairs, Department of State, 23 May 1972, NARA-College Park.

⁴⁷ Stross, *Bulls in the China Shop*, 4-5.

⁴⁸ Memorandum of conversation between Klingenberg and Metson, Washington D.C., 23 May 1972; Daniel Tretiak, “The Canton Fair: An Academic Perspective,” *The China Quarterly*, n. 56 (October-December, 1973), 740-748.

leaders, sometimes even managers, to receive American customers.⁴⁹ The Chinese also generally kept politics out of their negotiations with the Americans. Berger, for instance, noted that he “was never subjected to propaganda of any kind.” As he explained, “I was there to do business. They realized that I did not propagandize them, and they did not propagandize me.”⁵⁰ As Daniel Tretiak pointed out, “Americans who first began attending the Fair...might have expected that they would be criticized for past U.S. China policy, the Indochina War, or other aspects of U.S. foreign policy.” The fact that “these expectations were not realized” might have reinforced their belief that that the Chinese had granted them “special treatment.”⁵¹

In fact, Americans’ experiences at the fair varied from individual to individual. Some of them thought highly of the Chinese negotiators and Chinese goods. For example, Berger felt that the Chinese people with whom he did business were genuinely interested in him, his company, and the U.S. market. As negotiators, he thought that the Chinese were motivated, tough but “highly ethical.” Most importantly, Berger praised that the Chinese always delivered the high quality frozen shrimp that he asked for. Berger did about \$150,000 worth of business during his first trip and returned to the fair every year throughout the 1970s.⁵²

Most Americans at the 1972 Spring Canton Trade Fair, however, found that the Chinese goods in their current conditions did not suit the American market. It explained the modest volume of Sino-American transactions, which were mostly in raw silk, carpets, cotton grey

⁴⁹ Chinese National Native Produce and Animal By-Products Import and Export Corporation, *Yi jiu qi er nian Chunjiaohui dui Mei Maoyi Gongzuo xiaojie* (A Summary of the 1972 Spring Fair), 16 May 1972, 324-2-114, Guangdong Provincial Archives, Guangzhou, China.

⁵⁰ Tung, *U.S.-China Trade Negotiations*, 181.

⁵¹ Daniel Tretiak, “The Canton Fair: An Academic Perspective.”

⁵² Tung, *U.S.-China Trade Negotiations*, 178-190; Memorandum of conversation between Klingenberg and Metson, Washington D.C., 23 May 1972.

goods, frozen shrimp, antimony, tin, and fireworks.⁵³ Abert Lee purchased \$1million worth of Chinese canned foodstuffs that he intended to ship to the United States. Due to some labeling problems, however, he had to dispose of them in Hong Kong.⁵⁴ Labeling was only one of the numerous problems that China had to overcome to expand their exports to the United States.

Many Americans at the fair also felt confused and frustrated by China's trading practices and negotiating styles. First of all, the price and availability of a commodity at the fair depended upon the nationality of the purchaser. China generally gave preference to Third World over developed countries and "old friends" over newcomers. For example, when Klingenberg inquired about the price of a wicker baby carriage in the Native Produce exhibit, a Chinese staff immediately asked him, "What nationality are you?"⁵⁵ In terms of price, as a Chinese official frankly admitted, the Chinese would charge Americans "a somewhat higher price for a commodity in question than, for example, Canadians."⁵⁶

Moreover, many American attendees found the Chinese negotiators at the fair inefficient, inflexible, and unpredictable. For example, Klingenberg recounted that the Chinese would not give him a reference price for the wicker baby carriage in which he was interested unless he agreed to have "a frank and friendly exchange of views" with them first. Summarizing the frustrations felt by many American attendees, Klingenberg compared the fair to the game "Monopoly:"

At the roll of the dice one draws cards which include such instructions as: "You receive a telephone call at 3 A.M.;" "I will refer your request to the responsible official;" "We shall have a frank and friendly exchange of views;" "Your appointment has been cancelled." The losing

⁵³ Ministry of Foreign Trade, *Yi jiu qi er Chunji Zhongguo Chukou Shangpin Jiaoyihui: Guanyu Meiguo Shichang Qingkuang de Diaocha Cailiao* (1972 Spring Chinese Export Commodities Fair: A Survey on the American Market), June 1972, 324-2-114, Guangdong Provincial Archives, Guangzhou, China.

⁵⁴ Telegram from American Consulate in Hong Kong to the Department of State, 26 September 1972, RG 59, Central Files 1970-1973, FT 2 CHICOM-US, NARA-College Park.

⁵⁵ Memorandum of conversation between Klingenberg and Metson, Washington D.C., 23 May 1972. See also Chapter 1 of this dissertation, 43-44, and footnote 77.

⁵⁶ Tretiak, "The Canton Fair: An Academic Perspective."

throw produces: “you receive a telephone call saying ‘Chamber maid has been in your room too long. Get on the next train to Hong Kong. Do not pass go. Do not collect two hundred dollars.’” The winning throw says: “You have met the end user.”⁵⁷

Finally, the Chinese side never officially informed the American side about the rules that it made for Sino-American trade. This caused much confusion and frustration among the American attendees at the fair. For example, the wicker baby carriage in which Klingenberg was interested might not be on the Chinese export list for the United States, which would explain why Klingenberg’s inquiry was not well-received. In general, the Americans were confused if the practices that they had encountered at the fair were random or based on some sort of guidelines.

Over a month after the 1972 Spring Trade Fair, a U.S. congressional delegation, led by Hale Boggs, Democrat from Louisiana, and Gerald R. Ford, Republican from Michigan, found an opportunity to seek clarifications from the Chinese side. During a meeting with Li Shi-Fu, First Deputy Director of the CCPIT, Eugene A. Theroux, Boggs’s aide, asked, “Will orders for goods be accepted direct from U.S. companies or do you prefer to accept orders from foreign affiliates or subsidiaries of U.S. companies?” Li answered this question with facts, “U.S. businessmen attended the Canton Fair and they placed direct orders there. They also gave orders to correspondents. Some of them even came to Peking after the fair and signed contracts here.” Theroux then asked about the arrangement of transshipment. William Brown from the State Department followed up with a question about the banking arrangement. Li confirmed that although China preferred direct trade, it was not yet prepared for direct shipping and direct banking.⁵⁸

⁵⁷ Memorandum of conversation between Klingenberg and Metson, Washington D. C., 23 May 1972.

⁵⁸ “Conversation between Hale Boggs and Li Hsi-Fu, First Deputy Director of the Chinese Council for The Promotion of International Trade (CCPIT) at the CCPIT Office In Peking, June 29, 1972.” The delegation was led

During this meeting, Li expressed China's general interest in transportation and advanced equipment. He encouraged the American side to submit specific products to the Chinese side for consideration. He also expressed China's concern with U.S. export controls, commenting, "We view such restrictions as a handicap." However, he indicated that China would not pursue this issue until the two sides normalized their diplomatic relations. "This kind of question can be settled with normalization," he said: "We do hope that you will return for discussions on these matters."⁵⁹

As far as Chinese exports to the United States were concerned, Li raised the issue of MFN. He said, "In the Spring Trade Fair [American] businessmen informed us about high tariffs and duties. They said these prevent them from importing more." But he did not pursue this issue, simply commenting, "Trade can only be developed in a good political atmosphere." He also asked about other "restrictions on the importation of Chinese goods into the United States." The Americans asserted that there were no other discriminatory restrictions specifically on Chinese goods. However, they explained that there were restrictions on certain categories of goods, such as meat products and textiles, which would apply to China as well as other countries.⁶⁰ Li did not make further comment on this subject.

In response to Boggs' prodding to build contacts, Li replied, "There are already established contacts in the trade fair in Canton." He implied that by inviting American businessmen to attend the Canton Trade Fair, Beijing had taken the initiative to implement the Shanghai Communiqué. Moreover, he indicated that China preferred to use the Canton Trade Fair as the primary instrument to build contacts and facilitate Sino-American Trade on the

by Gerald R. Ford and Hale Boggs. Present at this meeting on the American side included Boggs, Theroux, Brown, Paul E. Sigmund, and Bryce Harlow.

⁵⁹ Ibid.

⁶⁰ Ibid.

people-to-people basis. The Canton Trade Fair would become Beijing's standard response to Washington's numerous trade proposals.⁶¹

China's Export Drive

To break into the U.S. market, the Chinese must first understand that market. Therefore, the Chinese Ministry of Foreign Trade asked Chinese trade officials attending the Canton Trade Fair to "learn about American market characteristics and trade practices" from the American attendees.⁶² Subsequently, Berger noticed that the Chinese that he dealt with at the fair "take great pains to be informed of commercial activities here [in the United States], and are pleased to receive background information and any available data concerning the people with whom they are doing business—market information, competitive product information, and suggestions with regard to how future offerings might be improved or made more acceptable to the buyers of their products."⁶³

Other American attendees at the Canton Trade Fair confirmed Berger's observation. Klingenberg had a long conversation with Bank of China's deputy general manager, Chen Shu-tzu at the 1972 Spring Trade Fair. He recounted that Chen asked "detailed questions about the American financial structure," "the nature of national, state, and Federal Reserve banks," "how the currency was controlled," and so forth. Daniel Tretiak noted that "one American specialist spent several long periods lecturing and answering sharp questions raised by Chinese officials" regarding exporting agricultural goods to the United States. As he commented, the Chinese were "especially respectful of Americans with thorough knowledge of their own country's market

⁶¹ Ibid.

⁶² Chinese Ministry of Foreign Trade, "Guanyu Zhongmei Maoyi Wenti" 22 March 1972.

⁶³ Tung, *U.S.-China Trade Negotiations*, 179-180.

conditions and import requirements” and “extremely interested in learning about coping with the intricacies of the American market.”⁶⁴

Although Sino-American trade volume was modest at the 1972 Spring Trade Fair, the information that Chinese officials collected about the American market was valuable. Based on the collected information, the Chinese Ministry of Foreign Trade published a survey on the American market in June 1972. According to the survey, two major reasons explained the modest volume of Chinese exports to the United States. One was on the American side—“The discriminatory high tariff rates that the American government imposed on us is a major obstacle to the development of Sino-American trade.” Taking the high tariff rates as well as the shipping marketing costs into account, as the survey analyzed, the retail price of the Chinese goods in the United States would end up several times higher than the price at which China exported them. The survey noted that during the current “China fad,” some Chinese goods sold well despite their outrageous price. Over the long term, however, the survey asserted that the exorbitant retail price would surely limit the prospect of Chinese goods in the U.S. market. According to the survey, the American businessmen did not purchase much because they were concerned that they would not be able to make a profit under the circumstances.⁶⁵

The other reason was on the Chinese side. The survey explained that China often could not deliver the quantities or qualities that the American businessmen demanded. In some cases, the Americans wanted to buy more, such as carpets, musical instruments and the velveteen, but China did not have the supplies. In other cases, the specifications of the Chinese products did not meet the demands of the American market. For example, an American complained that Chinese bicycles did not have the change gears. Another American told the Chinese that the Chinese

⁶⁴ Tretiak, “The Canton Fair: An Academic Perspective.”

⁶⁵ Ministry of Foreign Trade, *Yi jiu qi er Chunji Zhongguo Chukou Shangpin Jiaoyihui: Guanyu Meiguo Shichang Qingkuang de Diaocha Cailiao*.

bristles needed to be processed before American brush manufacturers could use them. Since American labor was very expensive, the American importer preferred to have the bristles processed in China and offered to teach the Chinese the required techniques. Finally, the survey pointed out that Chinese packaging and labeling posed numerous problems to the American importers.⁶⁶

The main purpose of the survey was to help the Chinese overcome the problems on their own side to expand Chinese exports to the United States. The survey described the specific demands of the U.S. market for the commodities that China could export. For example, on silk cloth, it stated that those for American market should be wider than those for the European market. In terms of color and pattern, it indicated that traditional oriental designs would sell in America. In terms of packaging, it stated that the American importers wanted the label “Pure silk made in China” to be placed on the package as well as on the margins of the cloth. It stressed that the American importers particularly demanded the label on the package to be “eye-catching.” The survey mentioned as many as 34 kinds of commodities, ranging from foodstuffs, native produce, textiles, handicrafts, light industry products, to metals and minerals. It also described some general rules regarding packaging, labeling, and marketing in the United States as well as some U.S. import laws and regulations. For instance, it noted that each package for export should be no more than 80 pounds because the U.S. porters had the right to refuse to carry any package heavier than 80 pounds according to the regulations made by the U.S. Human Rights Committee.⁶⁷

The survey also mentioned that the American businessmen proposed compensation trade as an alternative to cash transactions. For instance, some Americans indicated that they would

⁶⁶ Ibid.

⁶⁷ Ibid.

buy Chinese nonferrous metals if China would buy their mining equipment and technology. Some other Americans indicated that they were willing to provide the capital, equipment, technology and technicians to build factories in China, and China could repay their investment with the products from the factories. During their contacts, the American businessmen educated Chinese trade officials about different options that China had engage Sino-American trade. These suggestions would have great impact on the Chinese economy over the long term. At the time, however, China would not seriously consider these options but only focused on the quality of Chinese export commodities. The survey called the Chinese trade official to “gradually solve the problems in Sino-American trade that involved the specifications, packaging, and designs of Chinese products.”⁶⁸

Before the opening of the 1972 Autumn Canton Trade Fair, China had placed orders for satellite earth stations, aircraft, and large quantities of wheat from the United States. With the pattern of trade imbalance in favor of the United States emerging, China’s export drive gained new momentum. On November 20, 1972, the Foreign Trade Ministry officials told Premier Zhou that China basically used its trade surplus with Hong Kong, Macao, and Southeast Asian countries to make up its trade deficit with the United States, Japan, and Western European countries. Zhou urged the foreign trade officials to expand China’s exports to the Western countries, including the United States, to sustain China’s industrial and technological imports. He said,

Now we are in bad need of the imports [from the Western countries]. If we did not need them, we would not import so much. Over a short term, it is okay that we earn the foreign exchanges from Hong Kong, Macao, and Southeast Asian countries to pay the Western countries. Over a long term, it can not work....What on earth can we export to the United States, Canada, Japan, Western Europe, and countries of Oceania?...It will not work if we can not increase our exports to these countries. Our comrades do not know how to do business. [They] are arrogant, stubborn,

⁶⁸ Ibid.

and have a “take it or leave it” attitude....We should investigate and study [Western markets] to understand what things that the Westerners want.

To increase China’s export earnings, China must play by the rules of the capitalist economy on the international market. Under the circumstance of the Cultural Revolution, many Chinese officials were concerned that the export drive would lead China to stray away from the socialist path. The Chinese leaders such as Premier Zhou, Vice Premier Li Xiannian and Minister of Foreign Trade Li Qiang had to repeatedly emphasize that the Western capitalist market could not be confused with China’s socialist domestic market. They never publicly questioned the correctness of China’s domestic economic model. However, they argued that what worked for China’s domestic trade would not work for its trade with the Western countries. Finally, they stressed that that the adoption of certain capitalist practices was confined to the area of foreign trade, which would not change anything in China’s domestic economy.

Specifically, China made great efforts to adjust the price, increase the supplies, and improve the quality of Chinese goods according to world market conditions. The Chinese used to set the price for the commodities at the Canton Trade Fair in advance, which were generally far below the world market price level. The Chinese would announce the price at the opening of the fair and stick to it to the end. During the 1972 Autumn Fair, however, the Chinese decided not to quote the price in the first two or three days. Instead, they would use the first two or three days to talk with the foreign traders and investigate the status of the world market. Subsequently, the Chinese adjusted the price of thousands of commodities and earned millions of additional foreign exchange.⁶⁹

On January 4, 1973, Vice Premier Li Xiannian spoke about the price issue at the Foreign Trade Conference. He noted that some Chinese trade officials stuck to the principle of price

⁶⁹ *Baijie Huihuang*, 141-2.

stability and resisted letting the price of Chinese goods fluctuate. They were resistant negotiations on price with the capitalist customers, claiming that it was the socialist way to do business at the clearly-marked, non-negotiable price. Li commented that these officials were only being stupid. He pointed out that since in a capitalist economy prices fluctuated daily, China must not extend its domestic policy regarding price stability to the world market. He said:

[You] can not talk about stabilization of price with the capitalists....Last year we bought wheat at a price about 60 percent higher than before. How come you were not able to stabilize the price?...[Our policies regarding the world market] are to sell [our goods] at the best price and earn more [foreign exchange] for our country, not to stabilize the price....World market price can not be stabilized. Our will can not change the fact....If the world market price drops, you would have to lower your price. If the world market price rises but you refuse to increase your price, you would only benefit the capitalists....

Li explained that supply and demand ruled the capitalist economy, which inevitably led to constant price fluctuations: “[when] we do business with the capitalists,” he concluded, “we have to learn to play by their rule.”⁷⁰

China indeed learned quickly how to use the capitalist economic laws to its own advantage. Chinese cotton grey fabrics had a great reputation on the world market. However, China lacked the raw materials to produce the amount of fabrics that the world market desired. In 1973, when the price of cotton was far below that of cotton fabrics on the international market, Chen Yun proposed to import more cotton for processing and export more cotton fabrics. Some Chinese officials were afraid that China would develop a dependence on foreign raw materials. They criticized the import of cotton for betraying the principle of self-reliance. Chen Yun argued:

It will probably take a very long time for our domestic cotton production to...be able to supply our cotton processing industry for export. Under the current conditions we have to import cotton and process them into fabrics for export. If we did not do that, we were idiots. Among the cotton

⁷⁰ Li Xiannian Fuzongli zai Waimao Huiyi shang de jianghua yao dian (Main Points of Vice Premier Li Xiannian's Speech at the Foreign Trade Conference), 4 January 1973, 324-2-122, Guangdong Provincial Archives, Guangzhou, China.

producers, the United States is the most important one. But the Americans are not interested in cotton processing due to their high labor cost....Our labor cost is far lower than theirs. India, Pakistan, and Egypt all produce cotton fabrics. But their textile industries are not as good as ours.... The prospect of our cotton fabric export is very promising....We have [plenty of] labor that could earn foreign exchange for our country....After all, it was to help accelerate our industrial development.⁷¹

In 1973 and 1974, China imported a total of \$287 million worth of cotton from the United States.⁷² At the Canton Fair, the Chinese peddled the finished cotton fabrics to the American customers. Julian Sobin recounted that the Chinese once told his wife that the Americans should be “the natural customers for their cotton fabrics” since the fabrics were made of American cotton.⁷³

Compared to cotton grey fabrics, it was more profitable to export processed fabrics and finished clothes. During the 1973 Spring Fair, Premier Zhou determined that China should diversify its textile exports. As he instructed, “It’s the best if our [textile] exports can go straight to the consumer market.”⁷⁴ The quality of Chinese-made shirts, however, was often disappointing. The problems ranged from bleeding and shrinking to overstretching. In February 1972, a Canadian wrote to the Chinese Ministry of Foreign Trade to complain that the color of the Chinese shirts he bought bled in the water and dyed his other clothes in the washing machine. “The dyes used on these shirts were the worst I have seen in forty years,” he wrote, “[you] need to make sure to use good dyes for your apparel export in the future.”⁷⁵

⁷¹ Chen Yun, *Chen Yun Wenxuan*, v. 3, 2nd edition, 223-4. Chen Yun made this speech on October 12, 1973 to some Foreign Trade Ministry officials.

⁷² “US-Chinese Economic Relations,” table 1, undated, NLC-26-42-4-21 [electronic records], Jimmy Carter Library.

⁷³ Julian Sobin interview with Veronika Yhap, transcript, undated, The National Council for U.S.-China Trade records, Box 373, Julian Sobin Interviews, Gerald R. Ford Library.

⁷⁴ *Baijie Huihuang*, 146.

⁷⁵ Chinese Ministry of Foreign Trade, “Jianada yi yonghu laixin dui wo chenye tuse feichang buman” (A Letter from a Canadian Customer complaining about the poor colorfastness of our shirts), *Waimao Jianbao* (Foreign Trade Bulletin), n. 45, 30 March 1972, 274-2-18, Guangdong Provincial Archives, Guangzhou, China. The Canadian letter was dated 24 February 1972 and signed by E. L. Hogan.

The Chinese State Council urged the municipal government of Tianjin, where the shirts in question were made, to earnestly criticize itself for the mistake and take immediate action to solve the problem. The Council also forwarded the Canadian complaint and the Tianjin government's self-criticism report to all ministries and provincial-level governments. It called for all officials to fight to improve the quality of Chinese export commodities.⁷⁶

On October 10, 1973, Premier Zhou frankly told Canadian Prime Minister Pierre Trudeau that he had read two Canadian letters complaining about the quality of Chinese-made shirts. Zhou said, "We [Chinese] need to study how to develop a long-term trade relationship between us. We think that China should increase its exports to Canada. However, our exports must meet your requirements."⁷⁷ He particularly noted that Taiwan-made goods sold better in Canada than those made in Mainland China. He commented,

If our exports were inferior to that from Taiwan, how are we supposed to liberate Taiwan politically? The only other option is to liberate (Taiwan) by force. Even if (we) liberate Taiwan by force, our commodities are inferior to theirs and we still have to learn from them...If the variety of colors and designs of our textiles are outshined by that of Taiwan's textiles on the world market, [we] would have a hard time claiming socialist superiority...."

Zhou analyzed two reasons for Taiwan's success in foreign trade. Firstly, Taiwan had made special efforts to study different foreign markets so that it could customize its products and packaging accordingly. Secondly, Taiwan allowed foreign investment. Zhou asserted that foreign investment was not an issue for China because China had the necessary equipment, technology, capital, and raw materials. The issue was to study the world markets and to improve the quality, variety, and packaging of Chinese products in order to meet the demands of the world markets. If

⁷⁶ The State Council of China, "Guowuyuan guanyu chukou chenyi tuise yanzhong de tongbao" (A Circular by the State Council on the Problematic Colorfastness of the Exported Shirts), 20 April 1972, *ibid.*

⁷⁷ Zhou Zongli dui Waimao Gongzuo de Zhishi: Zhou Zongli shi yue shi ri dui Jianada Zongli Teluduo huitan zhong de bufen fayan neirong (Important Instructions from Premier Zhou on Foreign Trade: Part of Premier Zhou's Speech during His Conversation with Canadian Prime Minister Pierre Trudeau on October 10), 1973, 229-4-335, *ibid.*

Chinese goods could not meet the requirements of the Canadian market, Zhou bluntly stated that the Chinese should only blame themselves for the trade deficit.⁷⁸

Zhou's speech referring to Sino-Canadian trade was also applicable to Sino-American trade. In fact, throughout 1973 Chinese officials repeatedly raised the issue of trade imbalance with Americans and expressed a will to make Chinese goods more appealing to American consumers. On May 30, 1973, in a conversation with head of the U.S. Liaison Office Bruce, Chinese Foreign Trade Minister Bai Xiangguo "listed obstacles facing Chinese exports to" the United States, including "insufficient acquaintance with U.S. market" and the lack of MFN status.⁷⁹ On November 13, Premier Zhou told Kissinger bluntly, "We have a very great inferior balance in our trade. We would like to increase our exports to your country."⁸⁰ On December 8, the new Chinese Foreign Trade Minister Li Qiang told Bruce that "the Chinese need to develop a greater understanding of the U.S. market and to do something on such matters as design and packaging to make their products more acceptable."⁸¹

The 1973 Autumn Canton Trade Fair

The 1973 Autumn Fair saw the effects of Chinese efforts to engage the world market. The total trade volume was close to \$1.6 billion, which was the highest between 1957 and 1976.⁸² The number of American attendees increased to 245. The total business done between the Americans and Chinese reached \$40 million. As the American Consulate General in Hong Kong reported, "Chinese responsiveness to American requests for labeling, packaging, and design changes improved markedly" and "availabilities were definitely greater than at the Spring

⁷⁸ Ibid.

⁷⁹ Telegrams from U.S. Liaison Office in Beijing to the Department of State, 30 May 1973, Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁸⁰ *FURS 1969-1976*, 18: 416.

⁸¹ Telegrams from U.S. Liaison Office in Beijing to the Department of State, 8 December 1973, Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁸² *Baijie Huihuang*, 446.

Fair.” According to the Consulate, the American businessmen were “apparently satisfied whether with business done or future prospects.”⁸³

It is worth noting that China’s policy to cater to the Western market did not sit well with every Chinese official. Some officials became very irritated by the demanding American customers. According to the *New York Times*, a Chinese official told an Asian visitor at the 1973 Autumn Fair, “We are not going to do business with those Americans who demand we put their labels on our products, complain about design and standards and press us to give them exclusive right to distribute an export commodity.”⁸⁴

A few days later, however, the Fair Deputy Secretary Sun Fang made an opposite point in an interview with Voice of America. He said that China would eventually overcome the problems with the labeling, packaging, style, and specifications of Chinese products that had limited Chinese exports to the United States. Before the end of the fair, the Chinese had agreed, for the first time, to sell their needlepoint under the Spinnerin label—a U.S. brand.⁸⁵

The price change of Chinese goods at the 1973 Autumn Fair was one of the strongest testaments of China’s struggle to engage the world market. To earn foreign exchange to pay for China’s imports, China hiked the prices of 90 percent of its commodities.⁸⁶ According to the American Consulate General in Hong Kong, the price increase for raw silk, porcelain, and carpets was as high as 100 percent. For antiques, the price went up by 1,000 percent. In some cases the Chinese prices were outrageously above the world market levels, which deeply disappointed Western businessmen. The Consulate analyzed:

⁸³ Telegram from American Consulate General in Hong Kong to the Department of State, 23 November 1973 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁸⁴ Telegram from the Department of State to American Embassies, 31 October 1973. Ibid.

⁸⁵ Telegram from American Consulate General in Hong Kong to the Department of State, 23 November 1973, *ibid.*

⁸⁶ *Ibid.*, 147.

This [1973] Spring [Fair] may...mark a turning point in the history of the Canton Trade Fairs. Western businessmen have expressed disappointment and even bitterness over Chinese inflexibility on prices, packaging and labeling requests, and lack of merchandise. Unless the Chinese reduce their prices by [the] fair's end or offer better deals in the fall, the experience of this fair may discourage many westerners from doing business with China.⁸⁷

Fortunately, China was open to advice. In late June, the U.S. Department of State indicated that "Chinese commercial officers at the PRC Liaison office in Washington and at the PRC UN mission have expressed dissatisfaction at the results of the last Canton Trade Fair and requested advice from businessmen." The Chinese raised two questions:

- (1) How to repair the damage to the fairs' image resulting from high prices and slow business;
- (2) How to adjust fair mechanisms and procedures to avoid repetition at the next fair.⁸⁸

In Beijing, between July and August, Chen Yun held several meetings on the price issue with the Foreign Trade Ministry people. In October, he went to Guangzhou to inspect the Canton Trade Fair. He urged the trade officials not to set the price according to what they wanted, but according to the world market. The price should be appealing to the customers as well as profitable for China.⁸⁹ As a result, the 1973 Fall Fair saw a readjustment of the prices. Most visitors felt that the new prices were reasonably in line with world competition.⁹⁰

At this fair, two U.S. offices were available to assist American businessmen. One office was staffed by U.S. economic officers from the American Consulate in Hong Kong and the U.S. Liaison Office in Beijing. Herbert F. Horowitz from Beijing and Linwood R. Starbird from Hong Kong were at the office during the first half of the fair. William F. Rope from Beijing and Robert M. Perito from Hong Kong were there during the second half of the fair. William Clarke from

⁸⁷ Telegram from American Consulate General in Hong Kong to the Department of State, 9 May 1973 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁸⁸ Telegram from the Department of State to American Consulate General in Hong Kong, 22 June 1973, *Ibid.*

⁸⁹ *Baijie Huihuang*, 446.

⁹⁰ Telegram from American Consulate General in Hong Kong to the Department of State, 19 October and 23 November 1973 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

the Department of Commerce also visited the fair. The other office was set up by the NCUSCT that had formed less than five months previously.⁹¹

The U.S. offices at the Canton Trade Fair were a result of China's increasing willingness to accommodate American requests in the commercial area. For the 1972 Autumn Fair, the U.S. government had attempted to send an official representative from the Consulate General in Hong Kong to the fair. Beijing turned down the request.⁹² During the 1973 Spring Fair, three U.S. officers "observed" the fair, one from Washington and two from Hong Kong.⁹³ On September 22, 1973, when the United States first informed the Chinese side that the United States intended to send officers from both Beijing and Hong Kong to the Autumn Fair, the Chinese side indicated that it was "perhaps not necessary for officers from Hong Kong to attend the fair."⁹⁴ Six days later, however, Beijing granted America's request.⁹⁵

The U.S. government and the NCUSCT closely coordinated to prepare their presence at the Canton Trade Fair. According to their agreement, the government undertook the preparation of a guide to the fair and the NCUSCT undertook the publication and distribution of it. At the fair, the government office provided services such as a small commercial library and a register of U.S. businessmen. The Council office provided services such as "copying equipment" and

⁹¹ Telegram from U.S. Liaison Office in Beijing to the Department of State, 15 August 1973, *ibid.*; American Consulate General in Hong Kong to the Department of State, 19 October, *ibid.*; NCUSCT, "U.S. Participants at the Kwangchow Fairs, 1971-1973."

⁹² Telegram from the Department of State to American Consulate General in Hong Kong, 25 September 1972; telegram from American Consulate General in Hong Kong to the Department of State, 17 & 18 October 1972 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁹³ Telegram from American Consulate General in Hong Kong to the Department of State, 15 March 1973, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park; NCUSCT, "U.S. Participants at the Kwangchow Fairs, 1971-1973;"

⁹⁴ Telegram from U.S. Liaison Office in Beijing to the Department of State, 22 September 197 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁹⁵ Telegram from U.S. Liaison Office in Beijing to the Department of State, 29 September 1973, *ibid.*

“secretarial assistance.” The two offices were also prepared to advise the American traders and facilitate their contacts with the Chinese.⁹⁶

At one point, the U.S. government considered establishing a joint-office at the fair with the NCUSCT. However, David K. E. Bruce, head of the U.S. Liaison Office, was firmly against this option on the ground that China “would prefer to see some degree of separation between” the official and the private. In fact, the Chinese counterpart of the U.S. economic officers was the Ministry of Foreign Trade, while that of the NCUSCT was the CCPIT. Besides, a joint-office would probably make those American businessmen who were not members of the NCUSCT feel left out. The 1973 Autumn Fair thus saw two U.S. offices representing both the official and private channels between the United States and the PRC, which set the precedent for future fairs.⁹⁷

The U.S. Initiatives

To facilitate Sino-American trade, the American government believed that the two sides had to resolve their monetary claims against each other as well as familiarize each other with their market conditions and trade control measures. According to U.S. statistics, American private claims against the PRC amounted to \$196.5 million, while China’s frozen assets in the United States were approximately \$78 million.⁹⁸ In addition, the U.S. Export-Import Bank held the Beijing government responsible for delinquent loans totaling \$40 million that were made to the Nationalist government prior to 1947.⁹⁹ Without resolving these issues, from the American perspective, negotiations on MFN would be premature, extension of Export-Import Bank credits

⁹⁶ Telegram from American Consulate General in Hong Kong to the Department of State, 11 July, 15 August, 31 August, 27 September, and 1 October 1973 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁹⁷ Telegram from American Consulate General in Hong Kong to the Department of State, 16 & 21 August 1973, Ibid.

⁹⁸ The Response to NSSM 149, 59-62. See also, A. Doak Barnett, *China’s Economy in Global Perspective* (Washington: Brookings Institution, 1981), 514.

⁹⁹ The Response to NSSM 149, 62-63.

to the PRC would be impossible, and other efforts to expand Sino-American trade would be handicapped.

On March 24, 1972, the Department of State and the Department of Commerce submitted to the President a memorandum recommending raising the monetary claims through the Paris channel.¹⁰⁰ By June 8, the U.S. government had decided that the focus of the bilateral trade negotiations should be on the private claims issue.¹⁰¹ The issue concerning the Export-Import Bank debt could wait because it was more sensitive politically and less urgent economically. After all, the Beijing government pursued “self-reliance” and did not accept loans from foreign governments.¹⁰²

On June 22, 1972, during Kissinger’s fourth visit to Beijing, Alfred Le S. Jenkins officially proposed to Chang Wen-chin that the two sides “look into, fairly soon, this matter of claims and blocked accounts.” Jenkins explained:

It could produce problems as our trade grows. It could throw some commodities into question; someone who has a claim could take it into the courts. I think this is something our experts ought to get together on because it does offer the possibility of an embarrassing incident which we as a government would be unable to manage because of the courts....We would like to avoid embarrassment at this early stage in our trade relations. We would like to reach agreement....

To get China’s attention on this issue, Jenkins used MFN as the carrot, saying, “This is not unrelated to our considering Most Favored Nation treatment in principle.” In response, Chang related the claims issue to the Taiwan problem. He said, “It is very difficult to distinguish which claim belongs to our country and which belongs to Taiwan....It is difficult to sort them out.” He promised, however, that the Chinese side would “further study this question.”¹⁰³

¹⁰⁰ The Response to NSSM 149, 24 March 1972. See footnote 3.

¹⁰¹ NSDM 170. See *FRUS 1969-1976*, 17: 902-3.

¹⁰² See the memorandum on China trade that Winthrop G. Brown submitted to Kissinger on April 24 1972, RG 59, Central Files 1970-1973, FT 1 CHICOM-US, NARA-College Park.

¹⁰³ *FRUS 1969-1976*, E-13, Document 144 [Online version on October 12, 2008, available through the online catalog at <http://www.state.gov/r/pa/ho/frus>].

After Kissinger's visit, the U.S. government attempted to begin the negotiations on the private claims through the Paris channel. On March 10, 1972, the United States disclosed the Paris channel to the public.¹⁰⁴ A week later, the American government suggested beginning the Paris talks with discussions on trade and cultural exchanges to promote the spirit of the Shanghai communiqué.¹⁰⁵ According to the United States, the Ambassadorial meetings in Paris should be "the formal locus for agreements on major questions of U.S.-PRC economic and cultural relations."¹⁰⁶

On July 28, American Ambassador Arthur K. Walters personally handed an official memorandum on Sino-American trade to Chinese Ambassador Huang Zhen in Paris. The memorandum reemphasized Jenkins' point that the "outstanding claims" between the two countries were the most pressing problem concerning Sino-American trade. The United States proposed to "hold meetings between expert teams...either in Paris or Peking, starting September 15, 1972."¹⁰⁷ To help Beijing prepare for the proposed meetings, on August 14, the United States delivered a list of American private claims against the PRC to Beijing through the Paris channel.¹⁰⁸

¹⁰⁴ On March 3, the United States proposed to disclose the Paris channel on March 10. On March 6, Huang Hua, Chinese Ambassador to the United Nations, informed the American side of Chinese agreement to the proposed disclosure of the Paris Channel. See *FRUS, 1969-1976*, E-13, document 108, 109, and 110 [Online version on October 12, 2008, available through the online catalog at <http://www.state.gov/r/pa/ho/frus>]. With the disclosure of the Paris channel, the press and other governments showed great interest in the Paris talks. On July 28, Chinese Ambassador to France Huang Zhen informed the American side that the PRC preferred "not to disclose any content of [the Paris] talks" to the press and not to brief third countries on the talks unless agreed by both sides. See Telegram from the American Embassy in Paris to the Department of State, 28 July 1972, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

¹⁰⁵ Telegram from the Department of State to American Embassy in Paris, 17 March 1972, RG 59, Lot Files: 94D176, Box 5, China-Paris Channel Paper, March 1972-April 1973, NARA-College Park.

¹⁰⁶ The Response to NSSM 149, 59-62.

¹⁰⁷ *FRUS 1969-1976*, 17: 1027-1028. The delay of the delivery of the memorandum that Nixon had approved on June 8 was partly due to the fact that Huang Zhen, Chinese Ambassador to France was on leave and did not return to Paris until late July. See the telegram from American Embassy in Paris to the Department of State, 19 July 1972, RG 59, Lot Files 94D176, Box 5, China-Paris Channel Paper, March 1972-April 1973, NARA-College Park.

¹⁰⁸ Telegram from American Embassy in Paris to the Department of State, 14 August 1972, RG 59, Lot Files: 94D176, Box 5, China-Paris Channel Paper, March 1972-April 1973, NARA-College Park.

Other subjects that the memorandum addressed included “scheduled air service between the two countries,” “the issue of Most Favored Nation Status,” and “the problem of industrial protection.” The American government indicated that it was prepared to take immediate actions to help inaugurate scheduled air service between the two countries and to facilitate “Chinese registration of trademarks and patents” in accordance with American laws and regulations. It welcomed “an expression of the Chinese view of inaugurating reciprocal scheduled air service”, and expected China’s “reciprocal treatment” for the U.S. citizens in terms of industrial protection. As far as the issue of MFN was concerned, however, the American government indicated that this issue should be a subject for later discussion, while it expressed its understanding of China’s interest in MFN treatment.¹⁰⁹ Huang accepted the memorandum and promised that the PRC would study it and let the United States know its comments on the suggested topics for discussion.¹¹⁰

During the meeting on July 28, Watson also conveyed to Huang that the American government would welcome a general exchange of commercial information and trade control regulations between the two sides. He noted that Washington was prepared to provide the PRC with U.S. economic data, market information, and trade control regulations. He indicated that Washington hoped that Beijing would reciprocate the information. In particular, Watson mentioned “questions of export licensing and end use requirements.” When an American company applies for a license to export a commodity on the U.S. export control lists, the company is required to furnish the American government with proper information regarding how

¹⁰⁹ *FRUS 1969-1976*, 17: 1027-1028.

¹¹⁰ On September 12, 1972, China delivered its formal response to the United States through the Paris channel. In the response, China promised to give positive considerations to the issue of private claims and blocked assets, declined the proposal to establish scheduled air service in the near future, and made no comments on the subject of MFN and industrial protection. See Telegram from American Embassy in Paris to the Department of State, 12 September 1972, RG 59, Lot Files: 94D176, Box 5, China-Paris Channel Paper, March 1972-April 1973, NARA-College Park.

the proposed export would be used in the final destination. This requirement aims to insure that American exports will be used for civilian purposes. China, however, was inclined to be secretive about such information. Perhaps for that reason, Huang did not comment at all on the proposal that the United States and China should broadly exchange commercial information.¹¹¹

In fact, Beijing seemed to have intended to obtain the desired trade-related information from the American Consulate General in Hong Kong. In addition to its geographical proximity, the Hong Kong channel carried less political weight and publicity than the disclosed Paris channel. In June 1972, the manager of the China Resources Company openly expressed his wish to “have more direct contact with American officials” in Hong Kong “to improve understanding and to discuss technical questions concerning U.S. trade laws and regulations.” In two months, probably in response to the China Resources Company’s inquiry, the American Consulate General in Hong Kong “requested the text of USDA or FDA regulations concerning the use of straw as a packaging material” and proposed to deliver it to the China Resources Company. The consulate expressed its desire to play a major role in facilitating Sino-American trade, saying, “It is believed that making requested FDA regulations available as well as other USG printed material on hand at the CONGEN might well help to establish working commercial contacts with local PRC banks and commercial organizations, such action would appear to be consistent with

¹¹¹ Telegram from American Embassy in Paris to the Department of State, 28 July 1972, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park. On February 17, 1973, the U.S. side raised the issue concerning U.S. export controls and the end use information requirement again with the PRC during the counterpart talk in Beijing. NSC staff member Richard H. Solomon gave a specific example to Zhang Wenjin, Assistant to the PRC Foreign Minister—“You wanted to buy from the Hewlett-Packard Company certain electrical equipment. We cannot issue export licenses unless we are sure the equipment will only be used for civilian purposes.” “I see,” Zhang replied, without making substantive comments on the subject. See the memorandum of conversation of the February 17, 2:30–4:15 p.m. meeting between Zhang Wenjin and Alfred Le S. Jenkins, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 87, Country Files, Far East, PRC Counterpart Talks, 1971–1973, NARA-College Park.

the joint policy statement” on trade in the Shanghai Communiqué of February 28, 1972.¹¹² The role of the consulate in the exchange of information, however, inevitably declined after the establishment of the PRC Liaison Office in Washington and U.S. Liaison Office in Beijing.

Nonetheless, the United States began to deliver American market information and trade control regulations to the Chinese embassy in Paris. On July 28, in addition to the memorandum, Watson also left with Huang “a list of imports and exports that appear to offer the greatest potential for U.S.-PRC trade.”¹¹³ Huang said that the PRC would study it. On August 18, Jack P. Kubisch, U.S. charge d'affaires in Paris, delivered a memorandum on U.S. import restrictions concerning cotton textiles and a copy of “The Long-Term Arrangement Regarding International Trade in Textiles” (LTA) to the Chinese embassy in Paris.¹¹⁴ On November 22, Kubisch delivered four more memorandums on U.S. import restrictions to the Chinese embassy, concerning meat, endangered species, furs, and dumping behavior. Kubisch explained that the United States wished to “cooperate in working out arrangements which would enable PRC goods to comply with U.S. import regulations.” At receiving the four memorandums, Ambassador Huang appeared to be defensive. He pointed out that China had only limited supplies of meat and furs, which were primarily for the markets in Europe and Africa. Therefore, as he said, “there might not be enough to ship to [the] U.S.” He also noted that the Sino-American trade volume were “very limited” and predicted that the situation would not change in the near future.¹¹⁵

¹¹² Telegram from American Consulate General in Hong Kong to the Department of State, 6 June & 24 August 1972, *Ibid.*

¹¹³ Telegram from American Embassy in Paris to the Department of State, 28 July 1972, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

¹¹⁴ Telegram from American Embassy in Paris to the Department of State, 18 August 1972, *ibid.*

¹¹⁵ Telegram from American Embassy in Paris to the Department of State, 22 November 1972, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

Private Claims and Blocked Assets

On August 30, 1972, Nixon approved two alternatives to settle U.S. private claims against China and China's blocked assets in the United States. Option one was that the PRC would pay the sum of the U.S. claims and in return the U.S. would unblock all PRC assets. Option two was that the United States would "retain the blocked assets...using them to compensate" the U.S. claimants against the PRC. Between the two options, the United States preferred the first one, due to the fact that the sum of the U.S. claims in China doubled the sum of the PRC blocked assets in the United States. Above all, the United States preferred a quick settlement on a package basis.¹¹⁶ Meanwhile, Washington was waiting for Beijing's response to the U.S. memorandum that Ambassador Watson left with Ambassador Huang on July 28. The memorandum included a proposal to "hold meetings between expert teams...starting September 15, 1972" to discuss the matters of private claims and blocked assets.¹¹⁷

In order to persuade China to enter negotiations on this issue, the United States used the threat of possible attachment of Chinese commodities as well as the carrot of MFN status. The July 28 memorandum read:

We remain concerned that private claimants may attempt to attach by means of lawsuits Chinese commercial property or ships which come within the jurisdiction of U.S. courts. We could be unable to prevent such suits despite the adverse impact that they would have on the progressive development of mutually beneficial trade between the U.S. and China.¹¹⁸

The Chinese government, however, had good reasons to doubt that the U.S. government would let such attachments take place. It tested the U.S. government in August 1972 when it tried to purchase wheat from the United States. By August 24, 1972, President Nixon had issued an

¹¹⁶ *FRUS 1969-1976*, 17: 1056-1057.

¹¹⁷ *FRUS 1969-1976*, 17: 1027-1028.

¹¹⁸ Telegram from American Embassy in Paris to the Department of State, 28 July 1972.

executive order to exempt Chinese or Chinese-chartered cargos at U.S. ports from attachment to allow the Chinese purchase to proceed.

Beijing tested the U.S. government again in 1974. On March 28 China informed the United States that within a week China would like to operate two trial flights to New York, respectively via Tokyo-Anchorage and Paris. The two trial flights were supposed to lead to a special flight that would bring a Chinese UN delegation led by Deng Xiaoping to New York on April 6. The U.S. government immediately granted permissions and made necessary arrangements for the two flights.¹¹⁹ However, it reminded the Chinese government of the potential problem due to the unsettled private claims:

We assume that the government of the People's Republic of China has given due consideration to the fact that in the absence of a settlement of the private claims issue, there exists the danger of an attempted attachment of the aircraft by a private American claimant....We of course hope that the problem will not arise, but wish to emphasize that there is no means by which the U.S. government can prevent such an attempt from taking place.¹²⁰

Han Hsu called Kissinger deputy Brent Scowcroft to protest the U.S. warning. He called the U.S. message "blackmail" and indicated that Beijing would blame the U.S. government if an attachment occurred.¹²¹ The special flight was eventually cancelled. However, the two trial flights were successful.

On October 22, 1975, Kissinger mentioned the episode to Deng Xiaoping: "On the claims and assets . . .we are primarily concerned with enabling the Foreign Minister to come to New York via Anchorage in a Chinese aircraft, which will ease his discomfort when he arrives." Deng

¹¹⁹ Telegram from the Department of State to American Embassy in Tokyo, U.S. Liaison Office in Beijing, and U.S. Mission to the United Nation in New York, 29 March 1974, Online version on April 2, 2008, available through the online catalog of NARA-AAD].

¹²⁰ Telegram from the Department of State to U.S. Liaison Office in Beijing and U.S. Mission to the United Nation in New York, 30 March 1974, Online version on April 2, 2008, available through the online catalog of NARA-AAD].

¹²¹ Memorandum for Kissinger, "PRC domestic political situation and foreign policy as a context for your meeting with Teng Hsiao-p'ing and Ch'iao Kuan-hua—Bilateral Matters," 12 April 1974, RG 59, Lot Files: 94D176, Box 5, Normalization b/w US-PRC, 1973-1974—bilateral issues: meetings with PRC officials, NARA-College Park.

replied: “I believe a trial flight was made before I was planning to go for the Special Session.”

¹²² The Chinese government understood that the U.S. government would not want to deal with the complications that a possible attachment could cause. Since the U.S. government would always try its best to prevent such attachment, its threat in that regard could not motivate Beijing to resolve the issue.

As early as September 1971, Beijing had begun making preparations for a settlement of the pending debts between the PRC and the United States. On September 20, 1971, the Ministry of Foreign Trade directed six provincial and municipal foreign trade bureaus to submit reports on Sino-American pending debts that arose at the end of 1950 when the United States imposed the total embargo on China. The reports should describe:

I. The PRC claims against the United States

1. The PRC imports from the United States that the PRC had paid but had not received;
2. The PRC exports to the United States that the PRC had delivered but had not received the payments;

II. The U.S. claims against the PRC

1. The PRC exports to the United States that the PRC had received the payment but had not been able to deliver;
2. The PRC imports from the United States that the PRC had received but had not paid

III. The PRC exports to and imports from European countries that were affected by the U.S. blocking of Chinese deposits of U.S. dollars in third country banks.

IV. Other unsolved problems.¹²³

Beijing had attempted to use the banking issue to press the United States to unblock Chinese assets in the United States first. At the 1972 Spring Canton Trade Fair, Chinese trade officials told American businessmen that the U.S. blocking of Chinese assets was the reason that China could not have a direct banking relationship with American-owned banks.¹²⁴ In June,

¹²² *FRUS 1969-1976*, 18: 802-3.

¹²³ The Chinese Ministry of Foreign Trade, “Guanyu qingcha tong Meiguo qiye jian zhaiwu xuan’an de tongzhi” (An Announcement on the Checking of the Pending Debts with American Enterprises), 20 September 1971, 302-1-290, Guangdong Provincial Archives, Guangzhou, China.

¹²⁴ Telegram from American Consulate General in Hong Kong to the Department of State, 25 April 1972, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park; Memorandum of Conversation between Klingenberg and Metson.

when the Boggs/Ford-led Congressional delegation visited Beijing, their Chinese hosts made the same point when the subject of banking was raised.¹²⁵

On June 2, 1972, Xie Wen-lin, a PRC agent in Hong Kong indicated that Beijing preferred to treat the issue of blocked assets and the issue of private claims separately. In a private conversation, he referred to Chinese confiscation of foreign properties as the “return to China” of the properties that the foreigners once held in China. He asserted that the “return” and the U.S. blocking of Chinese assets were “completely unrelated because the respective governments acted for quite different reasons.” He also claimed that the Chinese frozen assets in the United States amounted to \$150 million, not \$80 million as the U.S. press lately indicated. If the United States were to unblock the Chinese assets, he indicated that Beijing would regard it as a “most significant gesture” and “be willing to discuss American claims against China.” When he was asked if “this meant that China acknowledged it had confiscated property which had rightfully belonged to U.S. citizens and companies,” Xie replied that “he would cable Beijing for an answer to this question.”¹²⁶

On September 12, 1972, Ambassador Huang delivered Beijing’s formal response to the American embassy in Paris. Beijing declined to begin holding meetings between expert teams on September 15. It explained, “owing to the complexity of this problem necessary preparations have to be made and it is inconvenient for us to hold meetings between expert teams starting September 15 as proposed by the U.S. side.” It promised, however, that the Chinese side would

¹²⁵ Memorandum of Conversation between Hale Boggs and Li His-Fu.

¹²⁶ Telegram from American Consulate General in Hong Kong to the Department of State, 2 June 1972, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park.

give “positive consideration” to the issue and “put forward its own concrete proposal after necessary study has been done.”¹²⁷

The United States took the response as an encouragement and accelerated its preparations for the negotiations. By late September, the American government had put together a tentative negotiating team and drafted negotiating instructions.¹²⁸ China, however, appeared to be in no hurry to complete the “necessary study.” On October 16, through the Paris channel, China requested additional information to the list of American claims that the United States delivered to China on August 14. The information that China requested included the claimants’ “full names and addresses, in the Chinese and English languages, as used in the People’s Republic of China in 1949” and each claimed property’s “particulars, amount, location (address) and value.”¹²⁹ The Chinese explained that the requested information was necessary for them to make adequate preparations for the negotiations.

Beijing’s request for additional information aroused Washington’s concern that the negotiations would become “bogged down at an early stage in lengthy haggling over the validity of individual claims.” To avoid that possibility, on November 8, the United States proposed that the two sides should hold a preliminary meeting in Paris or Beijing for “a general exchange of views.” The American representative for the meeting would be Deputy Assistant Secretary of State Sidney Weintraub, who would later head the U.S. delegation to the claims negotiations. At the preliminary meeting, Washington indicated, “the U.S. would present the PRC with detailed written information on individual claims.”¹³⁰ The Chinese, however, refused to hold face-to-face

¹²⁷ Telegram from American Embassy in Paris to the Department of State, 12 September 1972, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

¹²⁸ *FRUS 1969-1976*, 17: 1057, footnote 4.

¹²⁹ Telegram from American Embassy in Paris to the Department of State, 16 October 1972, , RG 59, Lot Files: 94D176, Box 5, China-Paris Channel Paper, March 1972-April 1973, NARA-College Park.

¹³⁰ Telegram from American Embassy in Paris to the Department of State, 8 November 1972, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park. The Department of State sent the instruction to American

meetings with American representatives before receiving the detailed information that they had requested.¹³¹ In early February 1973, a week before Kissinger's fifth visit to Beijing, the United States provided the PRC-required materials through the Paris channel.¹³²

Private Claims and MFN

In the first half of 1973, great hope existed that the issue of private claims could soon be resolved. As Beijing became increasingly concerned with the trade imbalance between China and the United States, it demonstrated greater interest in obtaining MFN. The United States thus emphasized the linkage between the two issues in the hopes of enticing China into a quick settlement of private claims.

During Kissinger's fifth visit to Beijing, the U.S. side indicated it was not impossible for China to gain MFN in the near future. As Jenkins told Chang on February 16, 1973, "We are introducing legislation which if passed would give the President discretionary power to decide on the issue of Most Favored Nation." However, the prospect depended on China's cooperation on claims. Jenkins said, "as long as this [claims] issue is unresolved, it would be very difficult for us to seek Most Favored Nation status for the People's Republic of China from our Congress." The Chinese side sought a firm promise: "do you think that if the problem of claims and assets is cleared up then the problem of the question of Most Favored Nation can be solved immediately?" Jenkins honestly answered, "No....even the sequence in these two problems has

Embassy in Paris on November 1, 1972. See Telegram from the Department of State to American Embassy in Paris, 1 November 1972, *Ibid.* The materials that the United States would present to China would be a review of the U.S. claims against the PRC finished by the U.S. Foreign Claims Settlement Commission in 1971. See William Burr, "'Casting a Shadow' over Trade: The Problem of Private Claims and Blocked Assets in U.S.-China Relations, 1972-1975," *Diplomatic History* 33, n. 2 (2009), 322-3.

¹³¹ Telegram from American Embassy in Paris to the Department of State, 11 December 1972, *Ibid.*

¹³² Memorandum of Conversation between Chang and Jenkins, 16 February 1973, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 87, Country Files, Far East, PRC Counterpart Talks, 1971-1973, NARA-College Park.

to come this way—the claims settlement first, then the Most Favored Nation—that [MFN] may take us a little while.”¹³³

Despite America’s noncommittal response, Beijing decided to cooperate on the issue of private claims so that the issue of MFN could be moved up on the agenda as soon as possible. On February 17, 1973, Premier Zhou and Kissinger agreed on the principles regarding the settlement of the claims issue. They agreed that the issue would “be dealt with on a package basis,” “not be made too complicated,” and “be settled in Paris.” Zhou commented: “I guess that once the principles are laid down it wouldn’t be very difficult.” Kissinger promised, “We will make sure that the Secretary of State knows that if there should be any [technical] difficulties they will be removed. You can count on what we have told you. It may be done in a complicated form, but it will certainly be done and be done quickly.”¹³⁴

At the same time, Jenkins and Chang reached an agreement that the U.S. government would “use the frozen Chinese assets in the U.S. to compensate the U.S. private claims against China.” Chang disputed the idea that this solution favored China. He stated that China disagreed with the figures that the American experts submitted. In addition to the apparent difficulty in sorting out the claims, as Chang explained, China had “different principles in the way of doing accounting.” For example, “since all the land in the country is owned by the People’s Republic of China...[China] would not pay any compensation on the claims for land at all.”¹³⁵

At last, Chang returned to the issue of MFN. He tried again to get the U.S. side to make a commitment but Jenkins refused to fall into the trap:

¹³³ Ibid.

¹³⁴ *FRUS 1969-1976*, 18: 112.

¹³⁵ Memorandum of Conversation between Chang and Jenkins, 17 February 1973, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 87, Country Files, Far East, PRC Counterpart Talks, 1971–1973, NARA-College Park.

Chang: And yesterday you also suggested that the issue of MFN should be solved at the earliest possible date—should be considered earlier [rather than later].

Jenkins: “Considered,” not “solved.”

Chang:So as soon as the assets problem is solved then the situation is mature for the MFN issue.

Jenkins: At least on the way to maturity.

Chang noted that the Chinese understood the difficulties regarding the issue of MFN on the American side. However, he stressed that the Chinese people would be very upset if the settlement of the private claims and blocked assets did not lead to China’s obtaining MFN. He said:

We hope that the gap [of time between their solutions] shall be as short as possible. The reason is very simple, because it would be very difficult for our public to understand [solution of claims/assets without granting MFN]. Since under the conditions that our two countries have not yet normalized relations and since the question of claims is solved, they would not understand why we solve the question of claims without any further purpose. Until it is solved for some practical purpose it would not be accepted.¹³⁶

U.S. officials refused to make a commitment on the MFN issue because they foresaw numerous technical problems that the U.S. government had to overcome in order to offer MFN status to the PRC. The MFN negotiations would have to cover issues on protection of the U.S. domestic market, U.S. government commercial representation in the PRC, opening of air and sea links, and protection of copyrights, patents and trademarks. Moreover, Congress might demand additional economic concessions from the PRC before it gave the green light. To make the matter more complicated, the U.S. government desired “to treat the PRC and USSR on a basis of equality” and offered them MFN status at the same time.¹³⁷

In fact, despite “strong indications of White House interest,” officials in the Department of State were not in a rush to take on the issue of MFN. By the end of March 1973, they had “not

¹³⁶ Ibid.

¹³⁷ Memorandum from Marshall Green, Assistant Secretary of State for East Asian and Pacific Affairs and Julius L. Katz, Acting Assistant Secretary for Economic and Business Affairs to William J. Casey, Under Secretary of State for Economic Affairs, 30 March 1973.

mapped out a comprehensive negotiating package for MFN for the PRC.” On March 30, Assistant Secretaries Marshall Green and Julius L. Katz proposed a “commission of a study of the impact of MFN on U.S.-PRC trade.” They indicated, however, that “it is possible that the subject will prove intractable within the short time frame we envisage before MFN for the PRC becomes an active issue.”¹³⁸ On October 6, 1973, Deputy Assistant Secretary of State Arthur Hummer Jr. indicated that the PRC might exaggerate the impact of MFN status on its exports to the United States. He suggested that the U.S. government not seek MFN status for the PRC “as long as the Soviet MFN problem is unresolved.”¹³⁹

In early 1973, nevertheless, the United States and China made progress in the claims negotiations. In late February, Chinese Foreign Minister Ji Pengfei and American Secretary Rogers, meeting in Paris, agreed on the principle to settle the claims issue on a package basis.¹⁴⁰ By March 12, President Nixon and Premier Zhou had exchanged official letters on the issue. The U.S. side proposed that the two governments renounce “all rights, title, and interest in properties and assets” in which they had claims against the other government and “assign all claims relating to such properties and assets” to the other government. Premier Zhou agreed on this principle and further noted, “our two letters shall constitute an agreement between our two governments.”¹⁴¹

The agreement, however, was not finalized until 1979. The negotiations dragged on as technical questions arose. To make sure that the PRC would renounce all the Chinese blocked

¹³⁸ Ibid.

¹³⁹ Memorandum from Arthur Hummer Jr., Deputy Assistant Secretary of State for East Asian and Pacific Affairs, to Secretary Kissinger, 6 October 1973, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

¹⁴⁰ Telegram from American Embassy in Paris to the Department of State, 26 February and 3 March 1973, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 87, Country Files, Far East, PRC Counterpart Talks, 1971–1973, NARA-College Park. Chi and Rogers were in Paris attending the International Conference on Vietnam.

¹⁴¹ Telegram from American Embassy in Paris to the Department of State, 12 March 1973, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

assets, the initial U.S. letter contained a lengthy definition of “the nationals of the People’s Republic of China” according to the U.S. Treasury Foreign Assets Control Regulations. Because the language of that definition was from the time when the United States considered the PRC as an enemy, Zhou found it offensive and deleted it.¹⁴² On March 21 1973, the United States responded to Zhou’s letter and substituted that definition with the terms “designated nationals” and “specially designated nationals.” The U.S. government explained the terms to Ambassador Watson, who would transmit the revised draft to Huang Zhen, as follows:

‘Designated national’ means an individual, corporation or other entity whose assets have been blocked; ‘Specially designated national’ means the PRC and any agency or instrumentality thereof or any person acting therefore whose assets have been blocked.¹⁴³

In the March 21 response, the U.S. side also made it clear that the agreement under discussion did not include the claims of American bondholders against the PRC. The bondholders’ claims were “based upon defaulted Chinese government treasury notes, railway loans, pacific development bonds, and other bonded indebtedness issued by predecessor Chinese governments prior to October 1, 1949.” The U.S. government expressed its hope for a “direct negotiation and settlement between the American bondholders” and the PRC at some point in the future.¹⁴⁴

Beijing did not respond to the March 21 message for seven months. On November 11, 1973, Lin Ping, Director of the Department of America and Oceania in the Ministry of Foreign Affairs, presented China’s response to Arthur W. Hummel, Jr., Deputy Assistant Secretary of State for East Asian and Pacific Affairs during the counterpart talks in Beijing. On the next day,

¹⁴² Telegram from American Embassy in Paris to the Department of State, 20 & 22 March 1973, RG 59, Lot Files: 94D176, Box 4, Memorandums, NARA-College Park.

¹⁴³ Telegram from the Department of State to American Embassy in Paris, 20 March 1973, Ibid. For more information on the haggling on the legal terms, see Burr, See William Burr, “‘Casting a Shadow’ over Trade: The Problem of Private Claims and Blocked Assets in U.S.-China Relations, 1972-1975,” 333-4.

¹⁴⁴ Telegram from American Embassy in Paris to the Department of State, 20 & 22 March 1973, RG 59, Lot Files: 94D176, Box 4, Memorandums, NARA-College Park.

the two sides debated heatedly three technical questions and could not reach an agreement on any of them. As Kissinger commented, “I think both our negotiators are trying to prove how tough they are.” Finally, On November 13, Kissinger and Zhou reached agreements on two of the three debated questions.¹⁴⁵

First, Beijing refused to use the term “designated nationals” in the agreement on the grounds that the term “was used during the former [hostile] period in Sino-American relations.”

¹⁴⁶ As Zhou explained to Kissinger on November 13, 1973, “if we adopt it, it would mean we think you are right in doing so [to block Chinese assets in the United States and elsewhere].” Kissinger could not make a decision in Beijing. He promised that when he returned to the United States he would talk to U.S. lawyers and Hummel to see if the U.S. side could come up with some solution that would satisfy the Chinese.¹⁴⁷ The U.S. side, however, found that there was “no way around...some sort of definition of ‘nationals of the PRC’” to meet the U.S. legal requirements. China, on the other side, refused to accept any language drawn from the Treasury Foreign Assets Control Regulations.¹⁴⁸ Probably because that language was associated with U.S. non-recognition policy towards the PRC, Beijing resented letting the United States have its way in the economic front without making political concessions. A year later, during Kissinger’s seventh visit to Beijing, Deng Xiaoping commented that the issue of private claims and blocked assets was “an issue of which one hundred years lack of a solution will not be of great consequence.” The important point that China must confirm, according to Deng, was that

¹⁴⁵ Memorandum of Conversations between Lin and Hummel, 11 & 12 November 1973, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 87, Country Files, Far East, PRC Counterpart Talks, 1971–1973, NARA-College Park; Memorandum of Conversations Kissinger and Zhou, 13 November 1973, *FRUS 1969-1976*, 18: 400-417.

¹⁴⁶ Memorandum of Conversation, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 87, Country Files, Far East, PRC Counterpart Talks, 1971–1973, NARA-College Park.

¹⁴⁷ *FRUS 1969-1976*, 18: 412.

¹⁴⁸ Memorandum for Kissinger, “US-PRC Negotiations—Where Do We Go From Here?” RG 59, Central Files 1970-1973, POL CHCOM-US, NARA-College Park.

“U.S. law doesn’t govern China.”¹⁴⁹ Towards the end of the decade, China became increasingly unwilling to settle the issue of private claims before the two governments fully normalized their diplomatic relations.

Second, Beijing refused to consider repaying the American bondholders in question. Lin explained that since the Treasury notes and bonds in question were issued by former governments, “the PRC considers these claims as old, null and void.”¹⁵⁰ The U.S. side decided to drop this question from the current negotiations. On November 13, Kissinger personally promised Zhou, “The U.S. government will not legally support any claims connected with those bonds.” He instructed Hummel, “There is no need for the Chinese side to take a position.”¹⁵¹

This question, however, would not subsequently disappear. Hummel explained that the U.S. government could not prevent the concerned American bondholders from making claims to U.S. courts. Kissinger assured Zhou that most likely the U.S. courts would not support these claims. However, Zhou was apparently concerned that the possible court cases would raise the question about the legitimacy of the Beijing government. He asked, “If they [the bondholders] can approach and make representation with those former Chinese governments, to whom would they approach?” Kissinger answered, “Since we don’t recognize the People’s Republic, how they can sue the People’s Republic is not clear. So they would have to sue Taiwan as the successor government [to the Qing government].” These sorts of potential political embarrassments probably helped prevent Beijing from finalizing the package settlement that Kissinger and Zhou had agreed on in February.

¹⁴⁹ *FRUS 1969-1976*, 18: 628

¹⁵⁰ Memorandum of Conversation, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 87, Country Files, Far East, PRC Counterpart Talks, 1971–1973, NARA-College Park.

¹⁵¹ *FRUS 1969-1976*, 18: 412.

Finally, Lin informed the U.S. side that “over the past years, [the PRC had] withdrawn from third country banks some of the money blocked by the U.S. government,” which amounted to \$17 million.¹⁵² On November 12, Kissinger made it clear to Zhou that it was impossible for the U.S. government to exclude that money from the settlement under discussion. He declared that “we could never get Congressional approval for the agreement if that item were excluded.” Zhou remained unmoved, “What shall we do? Give them [third country banks] back the money?” Kissinger then threatened that this question would draw the third country banks in question into American lawsuits. He said, “Our people...can sue those banks and get the money...That is the primary problem.” Kissinger’s strategy worked. The next day, Zhou told Kissinger that China was prepared to pay the \$17 million, excluding the interest, to the U.S. government. He emphasized that China preferred to give it directly to the U.S. government rather than returning it to the third country banks. If China returned the money to the third country banks, according to Zhou, “it would mean we recognize the blocking of the funds, and we don’t want to settle the question in this way.” Zhou also stressed that China did not want this matter to be discussed in the U.S. Congress. Kissinger accepted Zhou’s position.¹⁵³ By June 1975, however, the Chinese side had withdrawn this concession on the ground that the U.S. side refused to change the term “designated nationals.”¹⁵⁴

Three reasons perhaps explained Beijing’s delayed response and its subsequent uncompromising stance on the issue. Firstly, during Kissinger’s fifth visit to Beijing in February 1973, the two sides agreed to open liaison offices in each other’s capital. According to their agreement, the liaison offices would take over the Paris talks, including the negotiations on the

¹⁵² Memorandum of Conversation, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 87, Country Files, Far East, PRC Counterpart Talks, 1971–1973, NARA-College Park.

¹⁵³ *FRUS 1969-1976*, 18: 364-5, 413-4.

¹⁵⁴ Fan, *Jiangjun, Waijiaojia, Yishujia—Huang Zhen Zhuan*, 631.

settlement of private claims and blocked assets.¹⁵⁵ In the next few months, the liaison personnel were busy settling down and the negotiations on the claims issue were pending. On May 31, at Bruce's request, the Department of State informed him of the status of U.S.-PRC claims negotiations and indicated that the "Department [is] now making arrangements to pouch to USLO copies of telegraphic exchanges through the Paris channel."¹⁵⁶

Moreover, Beijing's political atmosphere had changed since Kissinger's visit in February. In the summer of 1973, Mao criticized Zhou for being too meticulous while losing sight of the big picture. This episode began with Zhou's praise for an article entitled "Preliminary Views on the Talks between Nixon and Brezhnev" published on June 28 in *Xin Qingkuang*, a Foreign Ministry internal bulletin. The article accused the Soviet Union and the United States of collusion to dominate the world. Lin Ping was encouraged by Zhou's praise and decided to call a meeting in the Department of America and Oceania to discuss the article. Lin also asked the author of the article, Zhang Zai, to prepare a talk for the meeting.¹⁵⁷

Mao was furious about the article and harshly criticized it. If that judgment in the article were correct, China would lose its leverage to negotiate with the United States. Instead of a U.S.-Soviet collusion, Mao emphasized "great turbulence, great split, and great reorganization" in international relations. In other words, U.S.-Soviet détente was a delusion and the United States needed China to keep the Soviet Union in check. Having heard of Mao's attitude towards the article, Lin Ping called off the meeting. This episode must have toughened Lin's attitude towards

¹⁵⁵ For the discussions between Kissinger and Zhou on the establishment of the liaison offices, see *FRUS 1969-1976*, 18:48-194.

¹⁵⁶ Telegram from the Department of State to the U.S. Liaison Office in Beijing, 31 May 1973, RG 59, Central Files 1970-1973, POL CHICOM-US, NARA-College Park.

¹⁵⁷ Chen Donglin, "Zhou Enlai zui Jiannan de Shike—1973 nian 'Pi Zhou' Fengbo Kaoshu" (Zhou Enlai's Most Difficult Time—The "Criticizing Zhou" Campaign in 1973), Presented to the Second Tianjin International Conference on Zhou Enlai April 2008," online version on March 15, 2009, available through the online catalog of the Institute of Contemporary China Studies at <http://www.iccs.cn/>. See also Ma, *The Cultural Revolution in the Foreign Ministry of China*, 359-362.

the United States.¹⁵⁸ Five months later, the Americans noticed “the ad hominem and uncompromising way in which the ascerbic Lin P’ing [Lin Ping] presented the PRC position in the counterpart talks” on the claims issue. They commented: “Mao and Chou apparently have good reason to be concerned about the Foreign Ministry souring our developing relationship.”¹⁵⁹

It was not clear why Zhou praised the article in *Xin Qingkuang*. In the conversation between Zhou and Bruce on June 25, Zhou actually pointed out that the United States should not trust the Soviet Union. He stated that history had showed that the sort of treaty that the United States and Soviet Union signed was unreliable. Zhou asserted that China would stick to the spirit of the Shanghai Communiqué and China was not afraid of isolation. Mao later read the memorandum of this conversation and commented approvingly that Zhou finally stood up to Bruce. After all, Mao was concerned that the United States, with détente at hand, would think that China could be led by its nose.¹⁶⁰

This atmosphere probably prohibited Zhou and the Foreign Ministry from making concessions on the issue of private claims and blocked assets to the United States. After the questions concerning the term “designated nationals” and American bondholders’ claims arose, the Chinese trade negotiators realized that they could not possibly circumvent the fact that the U.S. government had not recognized the PRC to enter any agreement with the United States. The trade negotiations thus hit an impasse over politics.

Above all, the prospect for Beijing’s speedy acquisition of MFN status had become less favorable since February 1973. In October 1972, Senator Henry M. Jackson introduced an amendment prohibiting MFN for any “non-market-economy country” that restricted emigration.

¹⁵⁸ Ibid.

¹⁵⁹ *FRUS 1969-1976*, 18: 449.

¹⁶⁰ Ibid. The agreement refers to the U.S.-USSR Agreement on the Prevention of Nuclear War signed in Washington on June 22, 1973.

Congressman Charles A. Vanik introduced a similar amendment in the House. In the same month, Washington and Moscow signed a trade agreement including a settlement of the wartime loans the Soviet Union had received from the United States. By the fall of 1973, the amendment had gained great support in the U.S. Congress.¹⁶¹ Although the amendment was directed at Soviet restrictions on Jewish emigration, it would apply to the PRC as well. On October 16, Bruce sent a telegram to the Department of State to “call attention” to the fact that the amendment, if passed, would “be a major obstacle to developing U.S.-PRC trade relations.” He wrote, “I am particularly concerned that members of Congress may not be fully aware of [the] importance Peking attaches to MFN, both as a prerequisite for expanding its exports to the U.S. and thereby improving balance of trade and politically as a significant indicator of further progress in normalization of relations.”¹⁶²

Beijing would not want its emigration policy and practice to be discussed by the American public or Congress. In particular, it would not want China and the Soviet Union to be discussed together. To avoid that possibility, Beijing would rather de-link the settlement of the private claims and the issue of MFN. On November 13, 1973, Zhou told Kissinger, “If you must take up this matter [concerning the terms of the settlement of the private claims] do not discuss it with the Congress at the same time you discuss MFN with the Soviet Union. We are not in a hurry. We are not willing to have the two issues discussed together.” Kissinger concurred, “We would present this [settlement of private claims] to the Congress on its own merits without reference to MFN.” He assured Zhou, “We will not discuss MFN for you with our Congress, Mr. Prime Minister, until you personally tell us you want us to do so.”¹⁶³ From Beijing’s perspective,

¹⁶¹ “Saga of the Jackson Amendment,” *Time*, 27 January 1975. See also *Encyclopedia of the Cold War* (New York: Routledge, 2008), 469-450.

¹⁶² *FRUS 1969-1976*, 18: 325.

¹⁶³ *FRUS 1969-1976*, 18: 414-5.

however, the merit of the settlement of private claims was to clear the way to discuss the issue of MFN. If the issue of MFN would have to wait, the settlement of the private claims could wait too.

During the conversations with Kissinger on November 12 and 13, 1973, Zhou inquired closely into the impact of the trade bill on the procedure of granting MFN. Kissinger explained the trade bill was a general bill that would give the President the discretionary authority to grant MFN to any country eligible under the bill. As he said, "Once that authority is granted, then it is up to us to grant MFN." In that case, China's request for MFN treatment would not be discussed in Congress.¹⁶⁴

In late 1973 and early 1974, China waited for the result of the U.S. debate on the general trade bill. On December 8, 1973, Foreign Trade Minister Li Qiang continued to express to Bruce, head of the U.S. Liaison Office, that the lack of MFN status was an obstacle to the increasing of Chinese exports to the United States.¹⁶⁵ In early March 1974, the Chinese Foreign Trade Ministry conducted a study on the prospects for Sino-American trade. It pointed out the disadvantage for China without MFN status. It indicated that the time was not yet ripe for China to officially request MFN treatment thanks to the ongoing U.S. debate on MFN status for the Soviet Union.¹⁶⁶ The implication was, however, that China would consider requesting MFN status after the U.S. debate on the Soviet Union subsided and Congress passed the trade bill.

The unfolding of the Watergate scandal, however, crushed Beijing's hope of circumventing the U.S. Congress to gain MFN status. Moreover, the prospect for normalization

¹⁶⁴ Ibid.

¹⁶⁵ Telegrams from U.S. Liaison Office in Beijing to the Department of State, 8 December 1973, Online version on December 2, 2008, available through the online catalog of NARA-AAD].

¹⁶⁶ Chinese Ministry of Foreign Trade, *Meiguo Jingji Maoyi Zhanwang ji Woguo de dui Mei Maoyi* (The Prospects of American Economy and Trade and Chinese trade with the United States), 324-4-129, Guangdong Provincial Archives, Guangzhou, China.

during Nixon's second term also diminished. As the troubled Nixon balked at taking on the Taiwan issue, Beijing retreated from its earlier aggressive pursuit of MFN status. In April 1974, China expert Daniel Tretiak reported that "unlike six months ago," Chinese officials now indicated that they were primarily concerned with "diplomatic recognition" and not very interested in "such issues as MFN treatment, frozen assets and huge trade imbalance."¹⁶⁷ In May 1974, it was reported that the Chinese "took [an] ironic view" of the Jackson Amendment." It was said that a high-ranking Chinese official in Washington told a U.S. official, "Tell the Senator we admire him greatly. In fact we are prepared to give him a commitment that China will provide a flood of 10 to 20 million Chinese to the State of Washington if the U.S. will allow them to come in."¹⁶⁸ When Yao Yilin, Chinese Vice Minister of Foreign Trade, met Senator Jackson on July 4 in Beijing, he did not raise the subject of MFN. Later that night he explained to officers at the U.S. Liaison Office that to China, the issue of MFN was "not of great concern" before the two countries normalized their diplomatic relations.¹⁶⁹

In December 1974, the trade bill was passed with the Jackson-Vanik Amendment. It provided that a bilateral trade agreement was a necessary step to grant MFN to a non-market economy country. It also subjected the trade agreement providing MFN to congressional approval. In the meantime, debate on the Soviet MFN status was still very active in the United States. Since Beijing would not possibly consider requesting MFN treatment under this circumstance, it gave up on both the claims and MFN issues. On October 22, 1975, Deng Xiaoping told Kissinger, "We are saying that it would be all right if it [the claims issue] was not settled in one hundred years....As for the Most-Favored-Nation treatment and so on, Chairman

¹⁶⁷ Telegrams from the Department of State to U.S. Liaison Office in Beijing, 19 April 1974, Online version on December 2, 2008, available through the online catalog of NARA-AAD].

¹⁶⁸ Telegrams from U.S. Liaison Office in Beijing to the Department of State, 28 May 1974, Ibid.

¹⁶⁹ Telegrams from the Department of State to U.S. Liaison Office in Beijing, 5 July 1974, Ibid.

Mao...said we do not need such things. As long as you do not give it to that bastard [the Soviet Union].” Deng continued: “And if it is, as you have mentioned before, that without getting involved with legal terms one cannot settle such issues as Most-Favored-Nation and the legal status, we are willing to give them up.”¹⁷⁰ So far, the U.S. efforts to regularize Sino-American trade at the official level had largely come to a dead end.

The National Council for the U.S.-China Trade

As early as March 1972, the U.S. government had envisioned formation of a Sino-American trade council as the counterpart of the CCPIT. The liaison between the two institutions would provide a point of contact that was technically private, but closely associated with both governments.¹⁷¹ The Sino-American trade council would help the U.S. government exert some control over American businessmen’s activities concerning Sino-American trade. It would also satisfy Chinese preference to develop trade contacts with the United States on a people-to-people basis. On July 28, Watson informed Huang Zhen of the idea about the council. Huang Zhen commented positively on it.¹⁷²

By December 23, 1972, the President had officially approved the proposal for the formation of the council, which was later named the National Council for U.S.-China Trade. Six days later, the United States via the Paris channel informed the Chinese of the decision on the formation of the National Council. Washington stated that the Council would be “a single non-governmental organization which would serve as a focus for information on trading with the People’s Republic of China and a contact point for dealing with officials and institutions of the People’s Republic of China on trade issues.” Specifically, the Council would facilitate activities

¹⁷⁰ Ibid., 802-3.

¹⁷¹ The Response to NSSM 149, 24 March 1972, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-190, NSSM Files, NSSM 149, NARA-College Park. See also *FRUS 1969-1976*, 17: 865, 867, and 871.

¹⁷² *FRUS 1969-1976*, 17: 1027-1028.

such as trade missions and exhibits, but would not deal with matters such as “claims, blocked assets, tariffs, and governmental regulations” that should be discussed on an official level.¹⁷³

By mid-March 1973, Secretary of Commerce Frederic B. Dent had appointed a group of top business executives to launch the National Council. The appointed businessmen formed an executive committee chaired by Donald Burnham, Chairman of Westinghouse Electric Corporation. On March 22, Secretary Dent hosted the first meeting of the executive committee. Fifteen committee members and ten government officials from the Departments of Commerce, State, Treasury and the National Security Council attended the meeting. During the meeting, it was confirmed that the membership of the Council would be open to American businessmen on a fee basis. The Council would be “self-sustaining, self-controlled, and independent of the U.S. government” once it was formed. In the meantime, it would “maintain a close liaison with the relevant government agencies.”¹⁷⁴

On May 31, 1973, the NCUSCT held its inaugural conference in Washington. In addition to three hundred business executives, Secretary Dent and other U.S. officials, four Chinese officials from the new PRC Liaison Office in Washington attended the conference. President Nixon sent a message from Iceland to congratulate the founding of the Council and indicated that it was a manifestation of the spirit of the Shanghai Communiqué. Han Xu, Deputy Chief of the PRC Liaison Office, concurred with Nixon’s comment and promised “full cooperation and assistance” to the Council’s contact with the CCPIT. “Many contacts between the Council and the PRC Liaison Office are anticipated,” said Han. At the conference, Burnham announced that

¹⁷³ Telegram from the Department of State to American Embassy in Paris, 27 December 1972; Telegram from American Embassy in Paris to the Department of State, 29 December 1972, RG 59, Central Files 1970-1973, FT CHICOM-US, NARA-College Park; Memorandum from Jenkins to Herman H. Barger, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, “NCUSCT,” 15 January 1973, Ibid.

¹⁷⁴ “Meeting of the Executive Committee” & “Council Background,” 22 March 1973, The National Council for U.S.-China Trade records, Box 37, Formation of Council (1), Gerald R. Ford Library.

the Board of Directors of the Council had elected Ambassador Christopher H. Philips President of the Council. Philips would resign from his position in the U.S. Mission to the United Nations and take the new position in the Council.¹⁷⁵

One discordant episode at the conference is worth noting. Under Secretary of State for Economic Affairs William J. Casey asserted in an address that the development of U.S.-PRC relations would not be “at the expense” of Taiwan. He reminded the business executives, “In our economic relations with each, it is essential that we take into consideration the probable reactions of the other.”¹⁷⁶ On the very next day, the U.S. Department of State received Han’s protest directed at Casey’s speech that implied two Chinas. Han said, “It is not our policy to be associated with the Taiwan government in this manner.”¹⁷⁷ With the expansion of U.S.-PRC contact, Chinese officials faced challenges to Beijing’s position on the Taiwan issue from different sectors of U.S. government and society. This development probably helped prod Beijing to put every emphasis on the issue of political recognition while becoming increasingly uncompromising in the trade negotiations.

On the same day of its inaugural conference, the NCUSCT sent a letter to the CCPIT to request an early meeting between the two institutions.¹⁷⁸ On June 12, President Philips and Attorney Theroux of the NCUSCT met with Huang Zhen, Chief of the PRC Liaison Office in Washington. Huang and other Chinese officers at the Liaison Office suggested the NCUSCT to present specific points that it would like to discuss with the CCPIT to the PRC Liaison Office,

¹⁷⁵ “U.S. Trade Welcoming Possibilities in China, Council Interest Indicates,” *Commerce Today*, 11 June 1973.

¹⁷⁶ Address by Casey, 31 May 1973, The National Council for U.S.-China Trade records, Box 37, Formation of Council (2), Gerald R. Ford Library.

¹⁷⁷ Memorandum from Richard H. Solomon to Kissinger, 1 June 1973, RG 59, Lot Files: 94D176, Box 5, Normalization b/w U.S.-PRC, 1973-1974—bilateral issues: meetings with PRC officials, NARA-College Park.

¹⁷⁸ Letter from the NCUSCT to the CCPIT, 31 May 1973, The National Council for U.S.-China Trade records, Box 31, CCPIT-Correspondence (I)-1973, Gerald R. Ford Library.

which would “serve as the go-between” for the NCUSCT and CCPIT.¹⁷⁹ On June 29, Li Chuan, Vice President of CCPIT, met David Rockefeller, Vice Chairman of the NCUSCT, in Beijing. Li formally invited the NCUSCT to send a trade mission to China between mid-October and mid-November and suggested that the Council discuss details regarding the visit with the PRC Liaison Office in Washington.¹⁸⁰

The NCUSCT delegation visited Beijing between November 4 and 16, 1973. Before the delegation’s departure, Kissinger wrote to Chairman Burnham, “I am mindful that your mission is a historic one. It is the first visit to Peking by a broadly representative American business delegation in twenty-four years.” He expressed his hope that the Council would complement the U.S. government’s role in facilitating Sino-American trade: “Some problems of a technical nature which would be difficult or inappropriate to raise at an inter-governmental level may be resolved to the benefit of both sides through the National Council’s discussions with your counterpart in Peking, the CCPIT.”¹⁸¹

In Beijing, the NCUSCT delegation met the CCPIT officials as well as Vice Premier Li Xiannian and Foreign Trade Minister Li Qiang. The NCUSCT and CCPIT confirmed their counterpart relationship and announced their agreement on November 16 in Hong Kong. The CCPIT agreed to send a delegation in 1974 consisting of CCPIT officials and officials of the Chinese Foreign Trade Corporations to the United States. The two sides also agreed to begin planning for reciprocal trade exhibitions and trade delegations of “specific industry and interest

¹⁷⁹ Memorandum by Theroux, 12 June 1973, The National Council for U.S.-China Trade records, Box 37, NCUSCT: Historical Files, 1973 (3), Gerald R. Ford Library.

¹⁸⁰ Memorandum of Conversation, 29 June 1973, Ibid. Huang Zhen extended the invitation to the NCUSCT on behalf of the CCPIT on July 10, 1973. See the letter from Theroux to Herman Barger, Deputy Assistant Secretary of State, 17 July 1973, RG 59, Central Files 1970-1973, FT 1 CHICOM-US, NARA-College Park.

¹⁸¹ “Letter from Secretary of State Henry Kissinger to delegation Chairman D. C. Burnham, 27 October 1973,” in *Report of the Visit by the Delegation of the National Council for the U.S.-China Trade to the People’s Republic of China, November 4-16, 1973, for Discussions with the CCPIT*, 12 December 1973, 9-10, The National Council for U.S.-China Trade records, Box 36, Delegation to China, 11/1973-Trip Report, Gerald R. Ford Library.

groupings.” They would also exchange trade-related information. In particular, Walter Sterling Surrey and Theroux, on behalf of the NCUSCT, held a meeting with the Legal Department of the CCPIT to discuss legal issues, such as patent protection, dispute settlement procedures, contract forms and clauses, insurance, and so forth. The NCUSCT promised to “supply to the Legal Department information...useful in eliminating or reducing unnecessarily complex or cumbersome legal inhibitions on trade development.”¹⁸²

Unsurprisingly, the Chinese side emphasized the issue of trade imbalance between the two countries. The Chinese argued that in order to sustain the Chinese import drive, the Americans needed to buy more Chinese goods. For example, Foreign Trade Minister Li Qiang said to the delegation: “You must realize [that] if you buy more from us we will be able to buy more from you.” The Chinese side acknowledged that they would have to improve the quality, style, and supply of their products in order to expand Chinese exports to the United States. Moreover, they pointed out that the U.S. tariff on Chinese goods was a major obstacle to Chinese exports. Li Qiang expressed his wish that the NCUSCT would have a positive influence on U.S. public opinion on the issue of granting MFN status to China.¹⁸³

The American delegation offered an alternative to sustain the Chinese import drive—foreign credit. The NCUSCT representative Gabriel Hauge met with the officials of the Bank of China and personally delivered a letter from the American Bankers Association. The Chinese firmly rejected that alternative. Qiao Peixin, Acting Chairman and General Manager, made a strong statement that China would “cover its foreign exchange costs by its foreign exchange

¹⁸² “President’s Report to Members,” *ibid.*, 1-8.

¹⁸³ “Summary of Meeting with Li Qiang, Minister of Foreign Trade,” *ibid.*, 81-89.

earnings.” Li Qiang also asserted that China preferred to do business on a cash basis and would not accept long-term credit at the moment.¹⁸⁴

With foreign credit out of question and Chinese exports only increasing slowly, China attempted to solve the problem of trade imbalance by cutting imports. In early 1974, a study of the Foreign Trade Ministry recommended minimizing Chinese imports from the United States. It said, “we should not import [from the United States] if it was not absolutely necessary; we should not import [from the United States] if we could import [the same commodities] from other countries.”¹⁸⁵

In the meantime, according to the study, China should continue its endeavors to expand exports to the United States.¹⁸⁶ Given the impasse in the trade negotiations at the official level, the NCUSCT became the most important channel that Beijing preferred to use to promote Sino-American trade. The NCUSCT maintained close relations with the CCPIT, Chinese Foreign Trade Corporations, the PRC Liaison Office in Washington as well as several agencies within the U.S. government. As a semi-official channel in essence, the NCUSCT was a reliable source that Chinese trade officials could count on for assistance to promote Chinese goods on the U.S. market. Under the auspice of the NCUSCT, the United States and China continued exchanging trade delegations as well as trade-related information. Between 1974 and 1977, Chinese exports to the United States grew steadily, although the total volume of Sino-American trade fluctuated. Despite the impasses in the economic as well as political negotiations between the two

¹⁸⁴ “Summary of Meeting with Official of the Bank of China, Peking, ” and “Summary of Meeting with Li Qiang, Minister of Foreign Trade,” Ibid., 63-65, 81-89.

¹⁸⁵ Chinese Ministry of Foreign Trade, *Meiguo Jingji Maoyi Zhanwang ji Woguo de dui Mei Maoyi* (The Prospects of American Economy and Trade and Chinese trade with the United States), 324-4-129, Guangdong Provincial Archives, Guangzhou, China.

¹⁸⁶ Ibid.

governments, China continued demonstrating its determination to engage the U.S. market, rather than turning back to its previous isolated status.

CHAPTER 4

The Trying Time

1974-1977

One basic problem is that the press wants to see visible signs of progress [in Sino-American relations] and there just aren't that many areas where we can keep saying 'look at all that progress.' Trade and exchanges are rocking along ok.

--George H.W. Bush, January 15, 1975¹

We had one [delegation] from the CCPIT which was a very high level broad-based delegation to get an overview. The other [Chinese trade] delegations have been hard sell, and I mean hard sell. They come in and they sign contracts and they want to do business. They want to meet new customers and they have very little time for the corporate front office even in most cases visiting plants.

--Melvin Searls, Jr., Vice President of the NCUSCT, February 1976²

The years between 1974 and 1977 were a trying time not only in Sino-American political relations but also in economic relations. During these years, the annual volume of Sino-American trade plummeted almost as fast as it had risen. The trade relationship was characterized by a sharp decline of U.S. exports to China and a slow growth of Chinese exports to the United States. U.S. exports to China reached a historic height in 1974 largely because of the 1972 and 1973 contracts for goods such as aircrafts, ammonia plants, wheat, and raw cotton. Without those contracts signed in 1974, the total value of U.S. exports to China in 1975 was only

¹ Engel ed., *The China Diary of George H. W. Bush*, 143.

² Julian Sobin Interview with Melvin Searls, transcript, undated, The National Council for U.S.-China Trade records, Box 373, The China Trader—Julian Sobin Interviews with Melvin Searls and Walter Sterling Surrey, Gerald R. Ford Library. The text indicated that the interview was conducted in February 1976.

\$304 million, about 37 percent of the total value in 1974. It went under \$200 million in both 1976 and 1977.³

China's suspension of wheat and cotton imports from the United States was the most important factor in the decline. From 1972 to 1974, U.S. agricultural exports accounted for over eighty percent of U.S. total exports to China. Although the suspension coincided with the stagnation of Sino-American normalization process, it was largely a response to China's historic trade deficit, which ran as high as \$ 0.7 billion in 1974.⁴ Since in principle Beijing did not allow foreign debts, it had to cut back imports to remedy the problem.

In addition to Beijing's financial stress, U.S. export controls also played a role in limiting the volume of Sino-American transactions. In mid-1970s, China was particularly interested in U.S. oilfield and oil exploration equipment and technology. The U.S. government, however, was in a position to hold up or even reject a contract involving such equipment and technology. Knowing of the risk, Beijing intended not to deal directly with U.S. companies, or sign big contracts involving U.S. parts or know-how.

Generally speaking, President Gerald R. Ford and Kissinger inclined to be relatively relaxed on the matter of export controls on China. However, the routine debate among the concerned agencies usually prolonged the process to grant export licenses. In this case, there would be a delay between the conclusion of a contract and the fulfillment of the contract. For instance, in August 1974, China signed a contract with a French group for two U.S. computers made by the Control Data Corporation (CDC). The U.S. government did not approve the re-

³ From 1974 to 1977, the total value of U.S.-PRC trade for each year was respectively \$934 million, \$462 million, \$336 million, and \$374 million. The total value of U.S. exports was respectively \$819 million, \$304 million, \$135 million, and \$171 million. See "US-Chinese Economic Relations," table 1, undated, NLC-26-42-4-21 [electronic records], Jimmy Carter Library.

⁴ Central Intelligence Agency of National Foreign Assessment Center, "China, Foreign Trade Policy in the 1970s," August 1978. NLC-26-42-5-2-0 [electronic records], Jimmy Carter Library, table 1.

export until October 1976. As a result, this contract of 1974 did not show in the trade statistics until 1977, when the CDC finally completed the delivery.⁵

Therefore, the total value of U.S. exports to China did not necessarily reflect the degree of Sino-American economic contacts. In fact, because all the concerned parties had a stake in a positive development of this trade relationship, U.S.-PRC economic contacts multiplied during these years. Beijing, while still under radical influence, understood the importance of the American market to its modernization programs. Beijing maintained two levels of trade communications. At the official level, it maintained the position that before normalization, trade issues were not worth discussions. In the contacts with Americans from the private sector, however, the Chinese continued to show great interest in American technology and equipment. In the meantime, they continued to voice their concerns on the problem of trade imbalance and demonstrate their will to solve the problems on their side, such as packaging and labeling. Chinese remained steadfast in their position that U.S. tariff duties on Chinese goods were too high, although they asserted that China would not take the initiative to ask for MFN treatment.

American businessmen were not necessarily making money from the China trade, but they were afraid of leaving the Chinese market. In mid-1976, for instance, Robert Boulogne from J.C. Penny admitted to Julian Sobin that his company had lost money on Chinese goods. Sobin pointed out that J.C. Penny was “not alone” in this regard. “In most other markets we just probably at this point would decide to get out,” Boulogne replied, “With this [Chinese] market, there’s no other market like it; it’s too big. We cannot take that chance.”⁶

⁵For details on the CDC sale, see the latter part of this chapter.

⁶ Julian Sobin Interview with Robert Boulogne, transcript, undated, The National Council for U.S.-China Trade records, Box 373, The China Trader—Julian Sobin Interviews with Murry Berger and Bob Boulogne, Gerald R. Ford Library. The text indicated that the interview was conducted in 1976 between the two Canton Fairs.

As for the U.S. government, being blamed for the stagnation of the normalization process, it seemed to have intended to use technology exports to console the Chinese. Although China never formally accepted U.S. end use conditions, the United States approved the CDC and several other computer sales to China. As James Mann explains, “Technology had become...the biggest favor [that] the United States could bestow....The [CDC] sale was aimed at helping those individuals within the Chinese leadership, eventually to be led by Deng, who favored modernizing China through strong ties with the United States.”⁷

During these years, more American exporters traveled to Beijing for technical presentations or sales negotiations. More American importers attended not only the Canton Trade Fairs but numerous specialized mini-fairs held in different cities between the Canton Fairs. Moreover, from 1975 to 1977, at the invitation of the NCUSCT, China sent at least thirteen trade missions to the United States. By 1978, the number of trade missions from and to China had grown so much that the NCUSCT established a separate “Delegation Department.”⁸ In addition, the PRC Liaison Chief and other officers visited a variety of American firms throughout the United States. They developed a very friendly relationship with the U.S. business community.⁹

In the context of the stagnation of the normalization process, these intensified trade contacts held special importance in reinforcing fragile U.S.-PRC ties. As for bilateral trade itself, however, it was troublesome that the trade volume did not reflect the efforts on both sides to open wider each other’s market. Towards the end of the 1970s, the question mark was large: would these efforts ever lead to a new page in Sino-American trade without drastic changes in China’s domestic economy as well as normalization?

⁷ Mann, *About Face*, 76.

⁸ See the finding aid to the papers of the NCUSCT, *ibid.* Between 1975 and 1977, the Business Advisory Services of the National Council for U.S. China Trade was responsible for coordinating the trade missions to and from China.

⁹ See Fan, *Jiangjun, Waijiaojia, Yishujia—Huang Zhen Zhuan*, 614-622.

The Impasse in Sino-American Diplomatic Negotiations

By the end of 1974, Sino-American negotiations on normalization had clearly hit an impasse.¹⁰ In the post-Watergate atmosphere, the Ford Administration retreated from Nixon's positions on Taiwan and proposed a new formula to resolve the issue. On November 26, 1974, Kissinger told Vice Premier Deng that to normalize relations, the United States expected a statement from Beijing on peaceful reunification of Taiwan and a U.S. liaison office to be maintained in Taiwan after normalization.¹¹ Deng immediately rejected the new formula, saying, "we feel that in essence it is still a variation of one China and one Taiwan."¹²

Moreover, China was deeply suspicious of U.S. détente with the Soviet Union. During Kissinger's November 1974 visit to Beijing, he briefed the Chinese on the recent discussions between the United States and the Soviet Union in Vladivostok on the limitation of nuclear weapons. Deng responded by questioning Soviet reliability: "On our side we don't believe it is possible to reach détente.... And we don't think there is any agreement that can bind the hands of Russia."¹³ Yet Deng was concerned with the consequences of the agreement for China. He asked Kissinger if the agreements "might lead to a reduction of American troops in Western Europe."

¹⁴ To China's worry, that possibility would enable the Soviet Union to transfer troops from Europe to the Sino-Soviet border.

¹⁰ For a detailed narrative on the stagnation in Sino-American negotiations on normalization between 1973 and 1977, see Robert S. Ross, *Negotiating Cooperation: The United States and China, 1969-1989* (Stanford: Stanford University Press, 1995), 55-119. See also Harding, *A Fragile Relationship*, 47-75; Mann, *About Face*, 65-84; and Jia Qinghua, "Chinese Relations with the United States," *The Golden Age of the U.S.-China-Japan Triangle, 1972-1989* ed. Ezra F. Vogel, Yuan Ming, and Tanaka Akihiko (Cambridge: Harvard University Press, 2002), 116-120.

¹¹ *FRUS 1969-1976*, 18:580.

¹² *Ibid.*, 581.

¹³ *Ibid.*, 595.

¹⁴ *Ibid.*, 610. Kissinger denied that possibility.

During Kissinger's visit to Beijing, the two sides agreed to arrange for President Ford to visit China the next year.¹⁵ Beijing had hoped that Ford's trip would lead to immediate normalization. In September 1975, however, Kissinger explicitly informed the Chinese that it would not happen.¹⁶ Basically, Ford would not take on the Taiwan issue before reelection. Beijing was sour. In October 1975, Mao told Kissinger: "We see that what you are doing is leaping to Moscow by way of our shoulders, and these shoulders are now useless."¹⁷ To send a strong message to the Americans, in the summer of 1976, China held the largest military exercise opposite the Taiwan Strait since 1962.¹⁸

Early in 1974, Mao had become disillusioned with the strategy of allying with the United States against the Soviet Union. He introduced the concept of "Third World," emphasizing that it was where China's true allies and China itself belonged.¹⁹ Under a new wave of radical offensives in Beijing in 1974, China's anti-American rhetoric became increasingly excessive, both domestically and internationally.

George H. W. Bush, the second head of the U.S. Liaison Office in Beijing, noted China's relentless public attacks on the United States many times in his diary.²⁰ He wrote on November 18, 1974, for example, "China unloaded on us at the World Food Conference in spite of my

¹⁵ Ibid., 589.

¹⁶ Ross, *Negotiating Cooperation*, 81.

¹⁷ *FRUS 1969-1976*, 18:789.

¹⁸ Ross, *Negotiating Cooperation*, 86.

¹⁹ Chinese historian Yang Kuisong argues that Mao Zedong considered that U.S.-Soviet détente meant the failure of his strategy of "breaking up the enemies by utilizing the contradictions between them." The U.S. indication of a willingness to provide China with strategic protection further offended Mao's pride. Mao then introduced the theory of the Third World. Yang emphasizes that Mao defined the Third World countries by their economic status in the world system rather than their political systems. He argues that this definition meant that the theme of the Third World theory was anti-hegemony and national independence and development, rather than anti-capitalist world revolution. See Yang, "Why and How Did Mao Introduce the 'Three-World' Theory? China's Changing Tones in the Process of the Sino-American Rapprochement," Presented to the international conference entitled *Transforming the Cold War: China and the Changing World, 1960s-1980s*. China Normal University, Shanghai, December 19-21, 2006.

²⁰ For an overview on Bush's concern with the Chinese public attacks on the United States, see Engel ed., *The China Diary of George H. W. Bush*, 445-448.

tactful suggestions to both Qiao and Deng that this not happen. They don't realize that this eventually will not help our policy at all. They must feel that they must make brownie points with the Third World and we will understand....They ought to knock it off but they don't seem to want to.”²¹ Beijing's anti-American rhetoric reflected its displeasure with Washington for the stagnation of the normalization process and U.S. détente with the Soviet Union. It also represented China's recharged efforts to claim its anti-hegemonic credential among Third World countries.

The public had already perceived the lack of progress as a sign of deterioration in Sino-American relations. Beijing's unrestrained rhetoric only helped strengthen that perception. On December 20, 1974, Bush wrote in his diary:

The big game in town [Beijing] is whether the U.S. relationship [with China] is deteriorated or not. The New Zealand ambassador and others are writing think pieces; the press is speculating on it; the diplomatic community is talking about it all the time. Overall I continue to feel that China needs...[and] wants the relationship, [but] they are walking kind of a tight-rope because of their public attacks on us do appear to have escalated.²²

The public pressure for visible signs of progress added difficulty to the maintenance of the status quo. For instance, the press first debated if Ford should go to China at all if nothing concrete would come out of the visit. Then it focused on the lack of substantive achievements of the trip.²³

Bush did not think that Sino-American relations were going backwards.²⁴ He believed that Ford's visit “should be hailed as simply a visit to get to know the Chinese leaders.” He gave the example of Deng's visit to Paris in May 1975: “There were no agreements, no signed

²¹ Ibid., 64.

²² Engel ed., *The China Diary of George H. W. Bush*, 124.

²³ For Bush's complaint about the journalists' negative attitude, see *ibid.*, 303-307 (Diary entry for June 1 and 2, 1975). For press coverage of the trip, see, for instance, Richard Steele with Thomas M. DeFrank, “Nor, Ford's Long March,” *Newsweek*, 15 December 1975; Allen S. Whiting, “The Signs Indicate the Chinese Are Not Happy,” *New York Times*, 30 November 1975; and James M. Naughton, “Ford Quits China,” *New York Times*, 5 December 1975.

²⁴ Engel ed., *The China Diary of George H. W. Bush*, 124. He wrote, “to say that the policy is deteriorated or gone backwards is simply not accurate.”

communiqués, but he had good talks with Giscard d'Estaing of France. This is the kind of meeting this should be billed as.”²⁵ He complained constantly in his diary about Western journalists painting Sino-American relations in a negative way as well as Beijing's provocative propaganda against the United States.

As historian Robert Ross points out, both Washington and Beijing were indeed afraid of setbacks in their relations. This was why although Ford was frustrated by Beijing's refusal to issue a joint communiqué, he still went to Beijing in December 1975. And this was why although Mao was disappointed by Washington's lack of action on the Taiwan issue, he still personally greeted Ford in Beijing. As Ross notes, “When Ford and Mao found nothing more to say with more than a half hour remaining in their meeting, they kept to schedule rather than suggest to the world less than harmonious relations.”²⁶ This episode, however, shows that when progress became elusive, the status quo was not easy to maintain—especially since the prolonged status quo was not what the two sides, especially Beijing, had expected.

Beijing in Financial Crisis: Agricultural Imports Suspended

Beginning in late 1974, China began to cancel its wheat orders from the United States. By the spring of 1975, it had suspended all its wheat and cotton purchases from the United States.²⁷ Beijing found it convenient to interpret the suspension as a political decision and an example of China's independence of the American market. However, economics played a larger role than politics in Beijing's decision.

²⁵ Ibid, 306.

²⁶ See Ross, *Negotiating Cooperation*, 85.

²⁷ See “US-Chinese Economic Relations,” table 1.

In 1974, China had a record harvest of both wheat and cotton, and a record trade deficit of \$ 0.7 billion.²⁸ Its resistance to foreign debts intensified the urgency to cut back imports. Among all its trade partners, China ran the largest trade deficit with the United States, which amounted to \$704 million.²⁹ Financially, it was only natural that Beijing considered cutting back imports from the United States first.

It is worth noting that China's trade with Japan and other developed countries were also affected. At the end of 1974, at China's request, Japan postponed the delivery of steel products. In the meantime, China negotiated with Japan for an expansion of oil exports.³⁰ In early 1975, the Belgians and British also reported China's lack of interests in buying. An exporter at the 1975 Spring Canton Fair commented, "Let's face it, they (the Chinese) are broke."³¹

China's cancellation of its orders of American raw cotton in 1975 was a direct response to depressed Chinese textile exports in 1974. According to the American Consulate in Hong Kong, Hong Kong data of 1974 showed a "sharp decline in imports of PRC cotton yarn and grey cloth and other cotton piece goods, as well as cotton clothing."³² The Chinese Ministry of Foreign Trade was fully aware of the situation. A study by the Ministry dated November 14, 1974 read:

This year our textile exports faced fierce competitions and saw a sharp decline.... It is especially worth noting that the Gang of Jiang [referring to Taiwan] has exported more textile products to Hong Kong than we did....The external reasons for the decline of our textile exports are that the

²⁸ Central Intelligence Agency of National Foreign Assessment Center, "China, Foreign Trade Policy in the 1970s," table 1.

²⁹ For the statistics of Chinese trade balance with its trade partners, see Shen ed., *Dangdai Zhongguo Dui Wai Maoyi*, v. 2, 370-389 (Appendix III). See also "US-Chinese Economic Relations," table 1.

³⁰ Telegram From U.S. Liaison Office in Beijing to the Department of State, 17 December 1974 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

³¹ "Kwangchou Diary Spring 1975," *U.S.-China Business Review* 2, no. 3 (1975): 43-49.

³² Telegram from American Consulate General in Hong Kong to the Department of State, 14 March 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

international market has been depressed and some other countries and regions has been selling [their products] at reduced prices.³³

As a result, China began to cancel American cotton on March 1975. The U.S. cotton delivery to China ended early in the second quarter of 1975. China did not resume its cotton and wheat imports from the United States until late 1977.³⁴

U.S. officers in Hong Kong believed that Chinese cancellation of American cotton was by and large an economic decision. In the past two years, China had imported large quantities of cotton from the United States for two major reasons. First, China had a poor cotton harvest in 1972. Second, the world market for cotton textiles was booming and China attempted to process the imported raw cotton for re-exports to earn foreign exchange. By the end of 1974, however, it had become clear that China had had a record cotton harvest for the year as the world market for cotton textiles had slackened. The cancellation was thus a logical choice for China to reserve its scarce foreign exchange earnings.³⁵

China even began to export its domestic raw cotton and re-export U.S. raw cotton to Hong Kong, Japan, and other markets. China reportedly began raw cotton exports to Hong Kong in November 1974 and became a major cotton supplier to Hong Kong in a couple of months.³⁶ In spring 1975 *U.S. China Business Review* reported that “for the first time in ten years, Chinese cotton is bound for Japan.”³⁷ It was also reported that China had “attempted to arrange direct

³³ Chinese Ministry of Foreign Trade, “Some Problems and Suggestions Regarding Our Current Textile Exports,” 14 November 1974, 324-2-129, Guangdong Provincial Archives, Guangzhou, China.

³⁴ See “US-Chinese Economic Relations,” table 1.

³⁵ Telegram from American Consulate General in Hong Kong to the Department of State to, 14 March 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

³⁶ Telegram from American Consulate General in Hong Kong to the Department of State to, 30 May 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD). It says that China “moved into fourth place among 15 suppliers of raw cotton into Hong Kong.”

³⁷ “International China Notes,” *U.S.-China Business Review* 2, no. 2 (1975): 54.

shipments of U.S cotton to third-country markets.”³⁸ This move made sense given that the transportation and storage of the bulky commodity of cotton was very costly to the Chinese.

Especially during the anti-Lin Biao, anti-Confucius campaign from late 1973 to late 1974, politics again overtook economics and threatened to paralyze the transportation system in China. On February 1, 1974, *The People’s Daily* published a Big-Character Poster made by some Shanghai dockers—“[Be the masters of the dock, not the slaves of tonnage.” The poster was directed to Premier Zhou, who had called for efficiency in loading and unloading at the Chinese ports. As the dock leaders were afraid of disciplining the workers, hundreds of cargo ships packed the Chinese ports. Dozens of ships were held up for over a month, and some were even held up for more than three months. China had to pay dearly for the delayed departure of the chartered foreign ships.³⁹ Under the circumstances, China’s cancellation and re-export of its cotton purchases from the United States would not only save it some foreign exchange, but help relieve its overcrowded ports.

In addition to economic necessity, the cancellation of wheat and cotton orders had political benefits as well. From the perspective of Chinese domestic politics, the cancellation helped placate the radicals who criticized the moderates for appeasing the Americans. For one thing, China was upset that Americans implied that China intended to make profits from the wheat deals.⁴⁰ The radicals were also unhappy with the capitalist speculative nature of the cotton imports. Moreover, China found that American wheat was tainted by TCK fungus. The TCK fungus posed no human health risk, but could infect winter wheat crops and cause yield losses. The radicals demanded a rejection of the tainted wheat, calling it a “fetish of foreign things” and “treason.” Above all, Shanghai, the base of the radicals, depended on imported grain. According

³⁸ Ibid.

³⁹ Chen and Du, *Zhonghua Renmin Gongheguo shilu*, 1032.

⁴⁰ See Chapter 2 of this dissertation, 116-117.

to former Vice Minister of Foreign Trade Yao Yilin, it was why the paranoid radicals made special efforts to prevent the tainted grain from entering China.⁴¹

The cancellation of American wheat also conveniently served Beijing's political purpose to press Washington for more rapid normalization. As normalization was postponed, Beijing stepped up the game to use economic issues to bargain for political progress in Sino-American relations. On July 4, 1974, for example, in a conversation with a U.S. congressional delegation, Vice Minister Yao Yilin indicated that before the two sides resolved their political differences, China would not attach any importance to any bilateral economic issues. He dismissed the problems such as packaging and labeling as petty matters, ridiculing the American governors who visited China six weeks previously for even bringing them up. He asserted that even though American products were better, China preferred to import goods from countries which had "a correct position on Taiwan." He gave the example that China would rather buy French trucks.⁴² In this regard, China in fact made a political statement by canceling American grain while continuing to purchase Canadian and Australian wheat. Nonetheless, with its record harvest and Canadian and Australian imports, the cancellation did not really hurt China's economic interests.

On the road to economic modernization, however, China had found that the American market was hard to bypass. Many times a Chinese mission to the United States in the name of cultural exchange produced an interest in purchase by the Chinese side. As a matter of fact, because of Beijing's preference, Sino-American cultural exchange programs in the 1970s were "heavily weighted in science and technical fields."⁴³ Even when China chose to deal with a third country, American parts or technology were often involved. It was questionable if or how far

⁴¹ Yao, *Yao Yilin Baixi Tan*, 185.

⁴² Telegrams from the Department of State to U.S. Liaison Office in Beijing, 5 July 1974 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁴³ Douglas P. Murray, "Exchange with the People's Republic of China: Symbols and Substance," *The ANNALS of the American Academy of Political and Social Science*, Vol. 424, No. 1 (1976), 29.

China would go to sacrifice its economic interests for political purposes. Although Beijing was dissatisfied with the pace of normalization, there was no denying the progress that had been made.

Less than three months after Yao's speech on July 4, 1974, Westinghouse Air Brake sold China \$7 million worthy of heavy mining trucks.⁴⁴ Robert McMenamin from the International Harvest Company later indicated that the Chinese generally turned to Japanese and French trucks primarily because they thought of "American trucks in the medium duty range as high priced."⁴⁵ Moreover, negotiations at the Canton Fairs continued to be devoid of politics, even in the spring of 1974 when radicals were on a major offensive.⁴⁶ In the spring of 1975, a Chinese trade official reportedly dismissed the idea that there were political reasons for the cut back in imports from the United States.⁴⁷

Radical Interference: The Snail Incident

The Chinese radicals routinely attacked foreign trade officials for selling out Chinese interests, which restricted the development of China's foreign trade. However, the radicals were not in a position to overhaul the overall policy of technological import because Mao generally sided with the moderates in this area. From time to time, the radicals would challenge individual cases on different grounds, but the moderates were able to fend off the radicals' challenges. For example, in October 1973, when China imported a steel rolling mill from Japan, Jiang Qing questioned the necessity to purchase some accessories along with the mill. Chen Yun responded,

⁴⁴ Telegrams from the US Liaison Office in Beijing to the Department of State, 23 September 1974 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁴⁵ Julian Sobin Interview with Murry Berger, transcript, undated, The National Council for U.S.-China Trade records, Box 373, The China Trader—Julian Sobin Interviews with Murry Berger and Bob Boulogne, Gerald R. Ford Library.

⁴⁶ Telegrams from the US Liaison Office in Beijing to the Department of State, 6 June 1974 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁴⁷ "Kwangchou Diary Spring 1975," 44.

“If someone accuses this [import of accessories] as being slavish to foreign things, I don’t mind being slavish for once.”⁴⁸ As Former Vice Minister of Foreign Trade Zhou Huamin later recalled,

The Gang of Four accused the Ministry of Foreign Trade of following a ‘thick, dark and long revisionist line.’ In response, Premier Zhou said that the ‘three foreign ministries’ (Ministries of Foreign Affairs, Foreign Trade, and Foreign Economic Relations)” was directly led by Chairman Mao and thus predominated by red lines. If the three ministries made mistakes, it is okay to criticize [them]. But [it is not okay] that the Gang of Four attempts to take over them.⁴⁹

Early in 1974, the Gang of Four targeted the Criticize Lin (Biao), Criticize Confucius (Pi-Lin pi-Kong) Campaign at Premier Zhou.⁵⁰ They closely watched Chinese foreign trade to look for opportunities to attack Zhou’s economic policy. In February 1974, Jiang Qing manufactured the so called “Snail Incident,” which sabotaged a potential purchase of a color TV tube plant from the United States.

In 1972, the Politburo of the Central Committee of the CCP had approved a resolution to import a color picture tube assembly line. Jiang Qing, a member of the Politburo, signed the document. The State Council designated the project to the Fourth Ministry of Machine Building, the Ministry of Foreign Trade, the State Broadcasting Bureau, and the State Planning Commission. In December 1972, a Chinese delegation visited Japan to investigate the market. Ten months later, a RCA team arrived in Beijing to make a proposal to TECHIMPORT on “a multi-plant complex for manufacturing Kinescopes, glass, components, etc. in the ‘tens of millions’ of dollars range.” Impressed by the RCA presentation, in December 1973, a Chinese delegation visited the United States, including the RCA and the Corning Glass Company. During

⁴⁸ Chen Donglin, “Chen Yun yu ‘Wenhua Da Geming’” (Chen Yun and the Cultural Revolution), *Dangshi Bolan*, 2005, n. 11.

⁴⁹ Zi Ding, *Li Qiang Zhuan*, 419.

⁵⁰ For a standard narrative of the campaign, see MacFarquhar, *Mao’s Last Revolution*, 366-373.

the visit, the Corning Company gave each member of the Chinese delegation a small glass snail as a Christmas gift.⁵¹

Xu Wenbin, a young cadre from the Fourth Ministry informed Jiang Qing about the gift, contending that it was intended to imply that China was crawling economically. On February 10, 1974, Jiang stormed into the Fourth Ministry to see Xu. She criticized the Fourth Ministry for allowing the Americans to insult China with the snail-shaped gift. She further criticized the State Council for its fetish for foreign things. She even accused the State Council of committing treason by “bowing to the imperialist pressure” to plan the importation of the picture tube plant. To rectify the wrong, she urged the Ministry of Foreign Affairs to return the glass snails to the U.S. Liaison Office in Beijing and present a note of protest to the U.S. government. She also asked to abort the plan to import the picture tube plant from the United States.⁵²

The Fourth Ministry immediately held a meeting to protest the American connection and endorse Jiang Qing’s solution. In the next two days, cadres in some other ministries began to put up Big-Character posters and hold public meetings to support Jiang Qing. For instance, one cadre from the Ministry of Water Resources and Electricity put up a Big-Character poster to reveal that her husband also had a glass snail from the Americans. Her husband was in the Ministry of Civil Aviation and visited the United States in 1973, probably for a Boeing purchase-related training program. She handed over the glass snail and asked her superiors to return it to the Americans.⁵³

⁵¹ Chen and Du, *Zhonghua Renmin Gongheguo shilu*, 1036-1038; Zi Ding, *Li Qiang Zhuan*, 416-418; Fan, *Jiangjun, Waijiaojia, Yishujia—Huang Zhen Zhuan Zhuan*, 637-638; Li Zhongqiang, “Yiqi huangtang de woniu shijian” (The Ridiculous “Snail Incident”), *Huangsheng Yuebao*, August 1999; Shi Shi, ““Woniu Shijian Shimo”” (The Snail Incident), *Xin Zhongguo waijiao fengyun* (New China’s Diplomatic History) v. 2 (Beijing: Shijie zhishi chubanshe, 1991), 176-180; Chen Jinhua, *Guoshi Yishu*, 26. See also Jiaqi Yan and Gao Gao, *Turbulent Decade: a History of the Cultural Revolution* (University of Hawaii Press, 1996), 433-434; Teiwes and Sun, *The End of the Maoist Era*, 163; Ji, *The Man On Mao’s Right*, 274-275. For the RCA visit, see telegram from the Department of State to the US Liaison Office in Beijing, 29 August 1973, (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

⁵² Ibid.

⁵³ Ibid.

According to the recollection of Sun Shunxing, Vice Premier Li Xiannian initially followed Jiang Qing on this issue. Sun was in the delegation that visited the Corning Glass Company. He recalled that Li summoned the leaders of the four ministries that were in charge of the import project and harshly criticized them for failing to detect the vicious intention of the Corning people. Jiang Qing instructed all the government agencies to inspect the gifts that they received from foreigners to expose the ones having similar implications as the glass snails. Some agencies found turtle and ox-shaped gifts. The ox-shaped gift was considered insulting because of a Chinese expression that describes slow movement—“old ox pulling a rickety cart.”⁵⁴

Premier Zhou resisted Jiang Qing’s demand to return the glass snails to the Americans. He instructed the Ministry of Foreign Affairs to investigate what snails symbolized in the United States. The Ministry of Foreign Affairs requested information from the PRC Liaison Office in Washington and the UN Mission in New York. At the time, Huang Zhen was in Beijing. Zhang Jianhua, from the commercial section of the PRC Liaison Office, and Ji Chaozhu, from the political section, answered the request. They made three points to dismiss Jiang Qing’s accusation. Firstly, the Corning Glass Company published a picture album of Corning-made glass art as Christmas gifts. Among the 38 pictures, the glass snail was the second. Secondly, the Chinese delegation visited Corning on December 27, two days after Christmas. The glass snail should have been considered a Christmas gift. Finally, the Corning Company received the Chinese delegation in a very warm, enthusiastic way. Given that the Corning Company

⁵⁴ Li Zhongqiang, “Yiqi huangtang de woniu shijian.” See also Teiwes and Sun, *The End of the Maoist Era*, 163 (footnote 38). Generally speaking, Li Xiannian was an ally of Zhou Enlai and an advocate of China’s economic openness. Teiwes and Sun think that Li’s initial reaction to the Snail Incident was “consistent with this opportunistic behavior on other occasions.” In fact, during the preparation for the Fourth National People’s Congress in December 1974, Mao commented that Li Xiannian was politically weak. See Mao’s talking points that Zhou conveyed to the Politburo Standing Committee, in Song Yongyi ed., *Zhongguo Wenhua dageming Wenku guangpan* (A Disk of the Chinese Cultural Revolution Library) (Hong Kong: Hong Kong Zhongwen Daxue, 2002). The pressure that Li was under during the ongoing Anti-Lin Biao, Anti-Confucius Campaign probably explained why he did not want confront Jiang Qing in the beginning of the Snail Incident.

apparently desired to do business with the Chinese, it was unlikely that the company would deliberately insult China.⁵⁵

On February 21, the Ministry of Foreign Affairs reported to Zhou that there was no evidence to confirm Jiang Qing's interpretation about the glass snail. It suggested not returning the gifts or raising the issue with the U.S. government. Zhou endorsed the suggestion and submitted it to Mao. Mao also approved it. Then the Politburo passed the resolution that Jiang's speech in the Fourth Ministry on February 10 was wrong and should be recanted.⁵⁶ Probably as a result of the incident, however, by early 1975, China had chosen to adopt the PAL system of color TV transmission instead of the NTSC system used in the United States.⁵⁷ In September 1979, China imported a multi-plant complex from Japan.⁵⁸

Many years later, when Li Qiang, former Minister of Foreign Trade, recalled the incident, he claimed that Jiang Qing was being a hypocrite. He said: Why did Jiang Qing travel by plane? [She'd] better ride a donkey to travel! She liked taking foreign airplanes: British airplanes, American airplanes, as well as Soviet ones. She would not say anything [about that]. Li Qiang also exposed that Jiang Qing made the Ministry of Foreign Trade import American movies, Kodak films, and Western German-made recorders and tapes for her.⁵⁹

⁵⁵ Ji, *The Man On Mao's Right*, 274-275.

⁵⁶ Chen and Du, *Zhonghua Renmin Gongheguo shilu*, 1036-1038.

⁵⁷ "Exporter's Notes" *U.S.-China Business Review* 2, no. 1(1975): 54.

⁵⁸ Li Zhongqiang, "Yiqi huangtang de woniu shijian."

⁵⁹ Zi Ding, *Li Qiang Zhuan*, 417. According to Ji Chaozhu, Jiang Qing initially endorsed the plan to import a color picture tube plant so that she could promote the model revolutionary operas throughout the country on color TV. It might be true given the fact that Jiang Qing adored American films. It might be an exaggeration, however, that the order to import the plant was directly from Jiang Qing, as Ji indicates. According to *Zhonghua Renmin Gongheguo Shilu*, Jiang approved the plan as a member of the Politburo. Ji also recalls that the Chinese delegation discussed with the Corning Company about a possible joint venture. It must be a mistake because China did not allow joint venture until 1979. Ji indicates that Jiang wrote the Revolutionary Operas, which is also incorrect. For Ji's recollection of the snail incident, see Ji, *The Man On Mao's Right*, 274. For Jiang's love for American films, see Zhang Ying, *Waijiao Fengyun Qinli ji* (Winds and Clouds in New China's Diplomacy) (Wuhan: Hubei Renmin Chubanshe, 2005), Part Four, Chapter Two, "Jiang Qing and Roxane Witke" (online version on April 20, 2009, available at <http://vip.book.sina.com.cn/book/catalog.php?book=77406>); and Ding Xuesong, *Zhongguo Diyiwei Nv Dashi Ding Xuesong Huiyilu* (The Memoir of the First Female Ambassador of the PRC) (Nanjing: Jiangsu Renmin

During the Snail Incident, Jiang Qing focused on the manners of Chinese trade officials in dealing with the Americans. Because of this radical influence, Chinese trade officials had to demonstrate their toughness in the negotiations with American businessmen. For example, they routinely refused to accept American end use conditions, even though the refusal could lead to the nullification of the contract. In terms of Chinese export drive, the radical influence made it difficult for the Ministry of Foreign Trade to discipline those who insisted on an uncooperative attitude towards American buyers.

Yet the Snail Incident did not turn China away from the U.S. technological market. Between January and September 1974, TECHIMPORT sent several groups to the United States.⁶⁰ Around the time of the incident, China was negotiating with several U.S. companies for sophisticated computer systems, petroleum equipment, and a Polypropylene Plant.⁶¹ Among them were two overseas branches of the CDC (Control Data Corporation).

The CDC Sale and the Chinese Effort at Oil Exploration

The CDC computer sale to China illustrated China's desire for Western technology. The negotiations on the sale and U.S. government end use conditions lasted from August 1973 to October 1976. During the time in between, China saw two major radical offensives in 1974 and 1976. The radical movements, however, did not prevent the deal from proceeding.

In early 1974, TECHIMPORT was simultaneously negotiating with a French group, including CDC-France, and a Canadian group, including CDC-Canada, for a large seismic data

Chubanshe, 1991), Chapter 15," (online version on April 20, 2009, available at <http://www.shuku.net:8080/novels/zhuanji/nds/nds.html>). For the relationship between Jiang Qing and the Model Operas, see Zhang Ying, "Jiang Qing Ruhe Bazhan le Yangbanxi" (How did Jiang Qing usurped the Model Operas), *Zong Heng*, December 2002.

⁶⁰ "Meeting with Mr. Chang Tsien-Hua (Zhang Jianhua)-Mr. Wang Tien-Ming (Wang Tianming)," 10 September 1974, The National Council for U.S.-China Trade records, Box 40, PRCLC-Correspondence (2), Gerald R. Ford Library.

⁶¹ These companies included GEO Space, IBM, Standard Oil, Fluor, Dresser, etc. See telegrams from U.S. Liaison Office in Beijing to the Department of State, 4 and 14 January, 28 February, 18 March, and 11 April 1974 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

processing center. The CDC was an American company based in Minneapolis. In August 1973, CDC-France and Générale de Géophysique (CGG), a French company, entered formal sales negotiations with TECHIMPORT. Two months later, as part of the cultural exchange program, a delegation from the Chinese Electronic Society visited the United States as the guest of the Committee on Scholarly Communications with the PRC. On the trip, the Chinese delegation visited the CDC and gave the company an opportunity to “convince the Chinese that CDC technology is and will continue to be state-of-the-art.” Hugh Donahue from the CDC believed that this particular contact gave the CDC “a jump on” its competitors, such as IBM.⁶²

By mid-August 1974, CDC-France and CGG had jointly signed a contract with TECHIMPORT. According to Bush, the negotiations “almost broke down over price.” When the French team decided to end the negotiations and go home, TECHIMPORT “asked the French Embassy to intercede with the French negotiating team.”⁶³ Two reasons might explain China’s eagerness to obtain this data processing center. First of all, this purchase had probably been written into the annual import plan. In addition, TECHIMPORT’s parallel negotiations with the Canadian group had broken down in mid-July.⁶⁴ In this case, CDC-France and CGG became the last resort for TECHIMPORT to fulfill the import plan.

The contract with CDC-France and CGG, worth close to \$7 million, was the largest contract that TECHIMPORT had signed with a computer manufacturer. About \$5 million of the contract was for the Cyber 172s to be supplied by CDC-France. The rest of the payment would

⁶² Julian Sobin Interview with Hugh Donahue, transcript, December 9, 1977, The National Council for U.S.-China Trade records, Box 373, The China Trader—Julian Sobin Interviews with David Cookson and Hugh Donahue, Gerald R. Ford Library. De Pauw, *U.S.-Chinese Trade Negotiations*, 102-106, 108-132. Telegrams from U.S. Liaison Office in Beijing to the Department of State, 2 May & 26 August 1974 [Online version on December 2, 2008, available through the online catalog of NARA-AAD]. The quote is from De Pauw, *U.S.-Chinese Trade Negotiations*, 125, and Sobin’s Interview with Hugh Donahue.

⁶³ From U.S. Liaison Office in Beijing to the Department of State, 26 August, 1974, [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁶⁴ *Ibid.*

go to CGG primarily for software. The CDC would produce the computers in the United States and ship them to Paris to be integrated with software. According to the contract, the delivery should be no later than late February 1976. In fall 1974 American representatives of the CDC were in fact invited to the Canton Fair, where they and the Chinese held contractual discussions.⁶⁵

Despite the major role of CDC-France in the deal, Beijing insisted on designating CGG as the co-contractor. CGG was a long-term supplier of oil exploration equipment to Beijing and had recently sold China a seismic vessel. The co-signing of CGG gave a stronger appearance that the contract represented a deal between France and China. It was actually a common practice of Beijing to avoid direct technological imports from the United States.⁶⁶ There was no doubt that both Sino-American bilateral politics and Chinese domestic politics played a role in shaping this preference. Moreover, American export controls must also have encouraged this practice.

The China Oil and Gas Exploration and Development Cooperation would be the end user of the processing center and use it for offshore oil exploration. The purchase of the CDC computers was one example of Beijing's intensive campaign to increase its oil output, especially to explore its offshore reserves. Beijing had both financial and strategic stakes in the expansion of its oil output. First of all, its modernization programs required sufficient energy supplies. Moreover, increased oil exports would boost Beijing's ability to pay for technological and equipment imports from the West. Strategically, Beijing felt the urgency to supply Japan so that Japan would not turn to the Soviet Union for Siberian oil. Beginning in 1973, China shipped large quantities of crude oil to Japan at "well below world market prices."⁶⁷

⁶⁵ Ibid.

⁶⁶ Ibid.

⁶⁷ Nicholas Ludlow, "China's Oil," *U.S.-China Business Review* 1, no.1 (1974): 21-27. See also "Japan-PRC Long Term Oil Agreement," *U.S.-China Business Review* 2, no. 1(1975): 56.

It is interesting to note that Jiang Qing criticized Chinese oil exports for letting the Chinese people bear the cost of the international oil crisis. She called the exports an example of a “colonial economy,” arguing that it was to sell out the Third World and save the First and Second Worlds. Minister Li Qiang told his subordinates that, according to Jiang’s logic, the two superpowers would be colonial economies too, since they both exported large quantities of natural resources. He ignored Jiang’s criticism, saying that he would listen to whoever had higher rank in the government, referring to Premier Zhou.⁶⁸

In November 1973, in the middle of the oil crisis, the NCUSCT delegation to China expressed great interest in helping China to develop its oil reserves. Vice Premier Li Xiannian admitted that China was “endeavoring to determine the extent of its oil reserves.” He joked that “Chinese technicians had been directed to drill very deep in to the earth in search for oil, but to refrain from drilling too deep so as not to drill through to the United States.” In the next few months, the United States sold \$10 million worth of onshore and offshore oil exploration and production equipment to China.⁶⁹

To develop its oil resources, China highly valued American technology. Zhang Jianhua, former commercial attaché of the PRC Liaison Office in Washington, recalled the struggle between the moderates and radicals on the issue of cooperating with American companies in the oil industry. He said:

At that time offshore oil exploration was a tough question [for us]. Offshore drilling was a virgin land in China. High technology, such as a remote sensing satellite, was needed to determine the extent of our offshore oil reserves. Only Americans [had the technology] to do that kind of exploration....Li Qiang and [other leaders] of the Ministry of Foreign Trade decided to cooperate with American companies. Our foreign trade officials at the Commercial Sector of the PRC

⁶⁸ Quoted from Zi Ding, *Li Qiang Zhuan*, 419.

⁶⁹ Ludlow, “China’s Oil.” For example, before the end of 1973, Vetco Offshore and GEO Space respectively sold China some offshore oil rig equipment and seismic equipment. See telegrams from U.S. Liaison Office in Beijing to the Department of State, 28 November 1974, and from the Department of State to U.S. Liaison Office in Beijing, 4 January 1974 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

Liaison Office loyally and efficiently carried out that decision...It was before the Reform and Opening-up had taken place at home, and [we] still had to battle the leftist elements to pursue some steps in our trade with the United States.⁷⁰

A few weeks after TECHIMPORT signed the contract for the CDC computers, Huang Zhen reportedly told NCUSCT President Philips that China “would accept the sort of partnership whereby America supplied the techniques of oil production and refinement in return for a supply of oil products to the United States.”⁷¹ Under the circumstances, it was arguable that CDC’s success in the Chinese market was attributable to the fact that China wanted the CDC system “quite badly.”⁷²

Nineteen seventy-five marked a high point of China’s search for petroleum equipment from abroad. This year began with the Second Plenary Session of the Tenth Central Committee of the Chinese Communist Party and the Fourth National People’s Congress of the PRC. The two meetings confirmed Deng’s appointment to the Standing Committee of the Central Politburo, First Vice Premier, Vice Chairman of the Central Committee, Vice Chairman of the Central Military Commission, Chief of General Staff of the People’s Liberation Army. In essence, Deng succeeded Premier Zhou, who was hospitalized, to take charge of the daily work of the central government. Deng launched the so-called “All-About Rectification.” A major aspect of the All-About Rectification campaign was in the economic arena. Deng attempted to place as much emphasis on economic development as on revolutionary politics. His empirical economic policy finally cost him Mao’s trust and led to his fall in early 1976.⁷³

⁷⁰ Quoted from Zi Ding, *Li Qiang Zhuan*, 318-319. Apparently the quote is from Zi Ding’s interview with Zhang.

⁷¹ See telegrams from U.S. Liaison Office in Beijing to the Department of State, 21 September 1974 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁷² De Pauw, *U.S.-Chinese Trade Negotiation*, 110.

⁷³ See Deng Rong, *Deng Xiaoping and the Cultural Revolution: A Daughter Recalls the Critical Years*, translated by Sidney Shapiro (Beijing: Foreign Languages Press, 2002), 285-388; MacFarquhar, *Mao’s Last Revolution*, 379-412.

Nevertheless in 1975 China made great strides to obtain Western technologies, equipment, and services. In February, Halliburton, a U.S. oilfield service company, informed U.S. officers in Hong Kong that the PRC had invited it to submit a bid to Beijing on oilfield stimulation equipment.⁷⁴ In March, Mobil Oil's Hong Kong representative signed contracts with the China Ocean Shipping Corporation "to supply bunkers and marine lubricants to the PRC." Besides Mobil Oil, Gulf and Exxon also supplied bunkers to the PRC.⁷⁵ In May, the Burroughs Corporations reached an agreement with TECHIMPORT for the sale of a very large computer.⁷⁶ In July, Dowell-Schlumberger, jointly owned by Dow Chemical and Frances Schlumberger, signed a contract with TECHIMPORT for pumping equipment.⁷⁷ In August, Steward and Stevenson concluded a contract with TECHIMPORT "for the sale of oil fracturing equipment."⁷⁸

In early November 1975, Suzanne Reynolds, NCUSCT publications associate, found "lots of people there [in Beijing] selling oil drilling equipment...or products relating to oil exploration." Bush also reported that around the time of the 1975 Fall Canton Fair, the Chinese invited "a number of major American exporters...directly to Peking." Among them, as Bush noted, the "most numerous" were the suppliers of "petroleum equipment for both drilling and exploration." The Americans in Beijing at the time included representatives from Baker Trading, Dresser, Litton Resources, Geospace, Rockwell Automation, and UOP.⁷⁹

During her visit, Reynolds learned that a U.S. oil company and TECHIMPORT even maintained some sort of permanent trade offices in each other's country. She noted that J. Ray

⁷⁴ Telegrams from American Consulate General In Hong Kong to the Department of State, 26 February 1975 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

⁷⁵ Telegram from U.S. Liaison Office in Beijing to the Department of State, 10 March 1975, Ibid.

⁷⁶ Telegram from U.S. Liaison Office in Beijing to the Department of State, 19, 24 February and 21 May 1975, *ibid.*

⁷⁷ "Exporter's Notes—Petroleum Equipment Sales," *The China Business Review* 4, no. 1 (1977): 37-38.

⁷⁸ Telegram from U.S. Liaison Office in Beijing to the Department of State, 26 August 1975, *Ibid.*

⁷⁹ "Letter from Suzanne Reynolds to NL (Nicholas Ludlow) written Nov. 3-9, received Nov 13," The National Council for U.S.-China Trade records, Box 73, Canton Fair: Fall 1975 (1), Gerald R. Ford Library; Telegram from U.S. Liaison Office in Beijing to the Department of State to, 31 October 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

Pace, President of Baker Trading, had a semi-office in Beijing, with “typewriters, copy machines—a whole library stored in the hotel in a trunk.” Moreover, Pace told her that TECHIMPORT had a representative in Houston on a permanent basis. His name was Mr. Hou or Shu and his office was in Lar Mar Towers. By November 1975, he had been in Houston for 8 months or so. He was there “to keep in touch w/companies with which TECHIMPORT has signed contracts or is negotiating and also to investigate future purchases.”⁸⁰

In the last two months of 1975, China signed \$30 million in contracts with four American oil field equipment companies. In the meantime, Litton Resources Systems was in Beijing to negotiate sales of seismological equipment for offshore exploration. Among the four contracts was a \$23 million contract with Dresser Industries. China insisted on signing this contract with Dresser’s Canadian subsidiary, although all the contracted equipment would come from the United States. Nevertheless, Bush concluded that the transactions and negotiations indicated “a marked increase in PRC efforts to obtain petroleum related equipment and technology from the United States.”⁸¹

CDC’s Road to the Export License

China’s efforts to obtain U.S. equipment and technology, however, were subject to U.S. export controls. This meant a lengthy waiting period between the conclusion of a sales agreement and the delivery of the contracted equipment or technology. Sometimes the delivery would never take place. For instance, in May 1975, the Burroughs Corporation submitted an application for a sale of a very large computer to the PRC. The suggested computer was more

⁸⁰ “Letter from Suzanne Reynolds to NL.”

⁸¹ Dresser Industries’ sale included 9 well logging units, 2 computers, 3 well perforating unites and accessories at \$23 million. Baker Trading’s sale was a “multi-million dollar package of oil field equipment...[including] oil well stimulation systems, pumps, well heads, and other types of equipment for on-shore applications.” Cameron Iron Works made a sale of oil well heads at \$750,000. And FMC sold China \$400,00 worth oil well heads. See Telegram from US Liaison Office in Beijing to the Department of State to, 17 December 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

sophisticated than what Burroughs had sold to the Soviet Union. By September, on strategic grounds, the U.S. government had denied the application.⁸²

By contracting U.S. subsidiaries abroad, China attempted to avoid the matter of end use conditions. For instance, TECHIMPORT explained that it failed to conclude a contract with the Canadian group for the CDC computer system because the Canadian group insisted on the inclusion of certain end use conditions in the contract.⁸³ In contrast, the French team was relatively relaxed in this regard. Since the CDC sale was technically a French sale, China probably had also expected the French government would press the U.S. government to grant the CDC the re-export license. However, China would learn that it could not avoid direct negotiations with the U.S. CDC on the end use conditions.

In May 1975, the concerned companies respectively submitted applications for export and re-export licenses to the French and U.S. governments for the sale of the seismic processing center to China. In a short time, the French government approved the sale. The U.S. government, however, did not grant the re-export license until October 20, 1976. During the time in between, the CDC carried out negotiations with both the U.S. government and TECHIMPORT on end use conditions.⁸⁴

The U.S. government agencies debated the CDC sale to China because the concerned computer system could be used for military purposes and China had refused to fill out the U.S. government form containing the end use conditions. Instead, TECHIMPORT provided an end use statement in the form of a letter. In the letter, China stated that the computer system would be

⁸² Memorandum from Philip C. Habib to Secretary Kissinger, "Denial of Burroughs Corporation Request to Export a Computer to the PRC," 10 May 1976, *Ibid*; Telegram from U.S. Liaison Office in Beijing to the Department of State, 19, 24 February and 21 May 1975; Telegram from the Department of State to U.S. Liaison Office in Beijing, 12 March and 23 September 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

⁸³ De Pauw, *U.S.-Chinese Trade Negotiations*, 134.

⁸⁴ *Ibid.*, 102-106, 108-137. Julian Sobin Interview with Hugh Donahue.

used for oil exploration and indicated that it would invite the CDC technician to visit the site. The Chinese commented, "This [statement] went far beyond the limitations of our usual business practice, but we did this in order to promote trade between our countries." The statement, however, fell short of meeting U.S. requirements.⁸⁵

By late 1975, the Chinese were apparently irritated by the denial of the Burroughs deal and the delay of the CDC case. When President Ford visited Beijing in December 1975, Vice Premier Deng raised the issue. He mentioned the fluctuation of Sino-American trade volume, indicating that its decline was attributable to U.S. export controls as well as China's lack of foreign exchange. He said: "under the present situation, some things we are interested in perhaps you find it impossible to supply. Like for instance computers of a speed of 10 million times." Kissinger explained that it was because the U.S. government had to take its relations with the Soviet Union into account when making decisions on the sale to China. Ford said that in principle, his administration "would be very anxious to be helpful in the computer area." Kissinger advised that China should not completely leave out the U.S. government when dealing with American computer companies. He said to Deng: "If your Ambassador could tell us informally ahead of time what you have in mind, we may be able to find a model of good quality which meets your needs which you can be sure will be approved, and we could work with the companies."⁸⁶

On March 9, 1976, the U.S. government finally granted "conditional approval" to the CDC sale to China as well as its sale to the Soviet Union. Not long after the CDC submitted the application for the China sale, it submitted another application for a Soviet sale involving a similar computer system for oil exploration. To maintain an even-handed policy, the U.S.

⁸⁵ Ibid. The quote is from De Pauw, *U.S.-Chinese Trade Negotiations*, 134. A copy of the end use statement by TECHIMPORT is found in the National Archives, RG 59, Lot Files: 94 D 176, Box 6, 1974-1978 NSD 246.

⁸⁶ *FRUS, 1969-1976*, 18: 898-899.

government asked the CDC to obtain a commitment from both the Chinese and Soviet governments to a three-year presence of a CDC expert on their respective sites. Donahue went to Beijing to negotiate with TECHIMPORT on the U.S. government safeguard conditions.⁸⁷

Donahue arrived in Beijing in mid-April, 1976, ten days or so after the Tiananmen Incident. The Tiananmen Incident took place around the Qingming Festival during which the Chinese people sweep and lay wreaths at the graves of their beloved ones. The Incident began with people voluntarily laying wreaths and gathering on Tiananmen Square to pay tribute to Premier Zhou, who had passed away on January 8, 1976. Making use of the occasion, the masses expressed their disillusionment with the Cultural Revolution, anger towards the Gang of Four and even Mao, and disapproval of the ongoing Criticize Deng (Xiaoping) Campaign. On April 5, with Mao's approval, the government used force to crush the movement. Two days later, Deng was removed from all his posts.⁸⁸ Under the circumstances, it was predictable that Donahue would encounter enormous difficulty in the negotiations with TECHIMPORT.

Donahue recalled that it was a time when the Gang of Four was at the peak of its power and the principle of self-reliance was pushed to an extreme. After Donahue's presentation, the Chinese negotiators immediately rejected all U.S. government conditions. Donahue, in response, changed his strategy. He proposed a technical assistance agreement to be attached to the sales contract. The agreement would allow the CDC to have an expert provide onsite training and other technical assistance to the Chinese. During the negotiations, from time to time, TECHIMPORT negotiators asserted that they believed in self-reliance, not foreign assistance.

⁸⁷ Julian Sobin Interview with Hugh Donahue; De Pauw, *U.S.-Chinese Trade Negotiations*, 108-132

⁸⁸ MacFarquhar, *Mao's Last Revolution*, 422-430.

Finally, they agreed to have the CDC people to be onsite up to two years. However, they refused to sign the agreement until they received a written guarantee of the export license.⁸⁹

By the time Donahue returned to Washington in May, the Soviet Union had agreed to all U.S. conditions on the computer sale. In principle, the U.S. government should have only approved the Soviet sale. For one thing, the Export Administration Review Board was not satisfied with the technical assistance agreement between the CDC and Beijing. Moreover, in the eyes of the Soviets, an approval for the PRC sale would imply that the U.S. government only held the Soviet Union, but not China, to U.S. standards. An approval only for the Soviet sale, however, would cause trouble as well. The American public did not necessarily understand the complexity of the safeguard issues. They would interpret the approval of the Soviet sale, but not of the Chinese, as a U.S. tilt towards the Soviet Union in triangular relations.⁹⁰

Because of these dilemmas, the U.S. government continued to hold up both the Chinese and Soviet cases. On July 12, 1976, Kissinger and his staff held a meeting on the Chinese case. Kissinger was apparently unhappy with the insistence of the Export Administration Review Board on the formality regarding the safeguards. When Winston Lord explained that the key problem was that “the Soviet will buy safeguards but the Chinese won’t.” Kissinger replied, “But what happens when the Soviets throw out our technicians?”⁹¹

With the contract with the PRC expiring, the CDC had to visit Beijing again without bringing the Chinese a definite answer from the U.S. government. The catastrophic Tangshan earthquake in late July, however, enabled the CDC to postpone the visit. In mid-August, under

⁸⁹ Julian Sobin Interview with Hugh Donahue; Memorandum of Conversation, “CDC Computer for the PRC,” 12 July 1976, The Kissinger Transcripts, Digital National Security Archives; and De Pauw, *U.S.-Chinese Trade Negotiations*, 132-137.

⁹⁰ *Ibid.*; and De Pauw, *U.S.-Chinese Trade Negotiations*, 105.

⁹¹ Memorandum of Conversation, “CDC Computer for the PRC,” 12 July 1976.

Soviet pressure, the U.S. finally approved the Soviet sale.⁹² In the meantime, Kissinger approached Huang Zhen to explain the delay on the Chinese case. He said: “We wish to be helpful to you. But the trouble is that you deal at a very low level through commercial channels.” He suggested again that the Chinese “supplement these [commercial channels] by keeping us privately informed.”⁹³

The CDC scheduled a trip to China in September, which was again postponed due to Mao’s death on September 9. Donahue finally arrived in Beijing on October 13, a week after the arrest of the Gang of Four. Before Donahue departed, the U.S. government assured him that, as soon as he arrived in Beijing, he would get a definite answer via the U.S. Liaison Office there. But a few days after he arrived, he only received a message to ask him to negotiate a few more conditions with the Chinese. Donahue refused to reopen negotiations with the Chinese. He recalled the situation: “I was in no position at that point [to reopen the negotiations]...because I had already been dancing around for 10 days with the Chinese....they expected me to have a yes [or] no answer....”

Before the end of October, the CDC finally received the export license. It delivered the computers in September 1977. By that time, China’s pursuit of petroleum-related products had resumed after the interruptions caused by the Tangshan earthquake and Mao’s death. In 1977 and 1978, China invited two U.S. petroleum delegations to China and sent two Chinese petroleum delegations to the United States.⁹⁴ By December 1978, the CDC had signed a contract with China for twelve additional computers worthy of about \$70 million.⁹⁵

⁹² De Pauw, *U.S.-Chinese Trade Negotiations*, 105, 135; Julian Sobin Interview with Hugh Donahue.

⁹³ *FRUS, 1969-1976*, 18: 949.

⁹⁴ See The National Council for U.S.-China Trade records, Box 92, Delegations From China, June 1977-Petroleum Equipment, Box 94 and 95, Delegations from China, January 1978-Petroleum, Box 106, November 1977-Petroleum Industry, and Box 111, September 1978-Petroleum Industry, Gerald R. Ford Library.

⁹⁵ Leslie H. Gelb, “U.S. Agrees to Sell China a Computer with Defense Uses,” *New York Times*, 29 October, 1976; De Pauw, *U.S.-Chinese Trade Negotiations*, 136-7; Julian Sobin Interview with Hugh Donahue.

The NCUSCT and China's Export Drive

Since its policy of technological and equipment import stood, China's export drive continued. For political reasons, it primarily used non-official channels to press for more U.S. imports from China. The NCUSCT would be the main instrument to promote Chinese products in the United States. Although it was supposed to be the sole counterpart of the CCPIT in the United States, the CCPIT sometimes would bypass it to have contacts with other U.S. organizations. This situation prompted the NCUSCT to become more sensitive to China's export needs.

When the NCUSCT was established, it had only major exporters represented on its board of directors. A memorandum from Charles Cooper to Kissinger dated August 16, 1973, indicated that China was disappointed with "both the slow growth of the organization [NCUSCT] and its big-business orientation."⁹⁶ During the negotiations on the first NCUSCT delegation to China, the PRC Liaison office explicitly expressed its hope to include some U.S. importer representatives in the delegation. In response, the NCUSCT appointed William M. Batten, executive of J.C. Penny, to the board of directors and the delegation to China.⁹⁷ In November 1973 in Beijing, Batten told the Chinese that the NCUSCT was forming an importers' group.⁹⁸

Back from China, the NCUSCT appointed Kurt E. Reinsberg, senior Vice President of Associated Metals and Minerals Corporation, to head the new Importers Committee. As Philips and Reinsberg indicated to American importers being recruited, the new committee was to fulfill the NCUSCT's pledge to the CCPIT that the NCUSCT activities "would be directed to

⁹⁶ See *FRUS 1969-1976*, 18: 317.

⁹⁷ Memorandum from Eugene A. Theroux to Donald C. Burnham and Christopher H. Philips, "Report of activities for week ending July 20, 1973," 20 July 1973, The National Council for U.S.-China Trade records, Box 37, Historical File-1973 (4); and Sobin Interview with Robert Boulogne.

⁹⁸ "Remarks by William M. Batten, second session," in *Report of the Visit by the Delegation of the National Council for the U.S.-China Trade to the People's Republic of China, November 4-16, 1973, for Discussions with the CCPIT*, 24-30.

encouraging U.S. imports from China.”⁹⁹ In the meantime, the NCUSCT urged the CCPIT to set a date for its reciprocal visit to the United States and a date for a major exhibition of Chinese goods in the United States.¹⁰⁰ The CCPIT finally made its first visit to the United States in September 1975. As for the exhibit, however, the CCPIT never gave a definite answer to the NCUSCT.

Actually, China was very interested in holding a trade exhibit in the United States to promote its exports. In 1973, before the formation of the NCUSCT, the Chinese State Council had included an exhibit in the United States in the three-year plan of Chinese trade exhibits abroad. The Chinese also suggested that the Committee on Sino-American Relations draft a proposal for a Chinese trade exhibit in the United States.¹⁰¹ The same year the concerned Chinese agencies began preparing for the event. Probably because of the interruption caused by the Criticize Lin, Criticize Confucius Campaign in 1974, the date of the exhibit was finally set for 1976.

On July 29, 1975, however, on political grounds, the Ministries of Foreign Trade and Foreign Affairs jointly proposed to cancel the exhibit for 1976. They argued that three factors made 1976 a bad time for the exhibit: the unsatisfying progress in Sino-American relations, the coming Bicentenary of American Independence and the American presidential election. They also noted that an American reciprocal exhibit would be troublesome to the Chinese due to the

⁹⁹ “China Trade Council Announces Major Drive to Assist U.S. Importers of Chinese Products,” The National Council for U.S.-China Trade records, Box 249, Chronological File, 1973, *ibid*; Letter from Philips and Reinsberg to Sydney Sweet, President of C. Tannant Sons & Co., 1 March 1974, *Ibid.*, The National Council for U.S.-China Trade records, Box 249, Chronological File, 1974 (2), *ibid*.

¹⁰⁰ In February 1974, the NCUSCT even reserved the New York Coliseum for June and July 1975 for the possible Chinese exhibit. See the letter from Philips to the CCPIT, 22 February 1974, The National Council for U.S.-China Trade records, Box 31, CCPIT-Correspondence (2), *ibid*.

¹⁰¹ *FURS 1969-1976*, 18: 16.

current status of Sino-American relations. The State Council approved the cancellation the next day.¹⁰²

Interestingly, the proposal of cancellation was signed by Vice Minister of Foreign Affairs Wang Hairong along with Minister of Foreign Trade Li Qiang. At the time, the Minister of Foreign Affairs was Qiao Guanhua, a moderate, who read but did not sign the document. Wang was Mao's niece, a young radical, and one of a couple of people who had direct access to Mao at the time. Her signature probably indicated that Mao had known about the proposed cancellation.¹⁰³ By the summer of 1975, Mao probably had realized that Ford was not going to break off diplomatic relations with Taiwan any time soon. So he would not stand to let Ford use the Chinese exhibit as a positive sign of Sino-American relations to boost his presidential campaign.

In addition, Beijing was in no position to resolve the issue of private claims with the United States. In that context, American claimants might try to attach the Chinese goods at the exhibit. In September 1975 when the CCPIT visited the United States, it told the NCUSCT that China was still committed to mutual trade exhibits. The exhibits, however, had to wait for a resolution on the claims issue.¹⁰⁴

Generally speaking, Chinese foreign trade agencies counted on the NCUSCT's assistance to collect desirable commercial information. The PRC Liaison Office was their go-between. For instance, in June 1974, the PRC Liaison Office asked the NCUSCT to help it obtain the

¹⁰² Chinese Ministries of Foreign Trade and Foreign Affairs, "Guanyu ni Chexiao fu Mei Zhanlan Jihua de Qingshi" (A Request for Instructions on the Proposed Cancellation of the Exhibit to be Held in the United State), 29 July 1975, 274-2-76, Guangdong Provincial Archives, Guangzhou, China; Chinese Ministry of Foreign Trade, "Guanyu Guowuyuan Pizhun Chexiao Yijiuliuqi nian fu Mei Zhanlan Jihua de Tongzhi" (The Notice about the State Council's Approval of the Proposed Cancellation of the Exhibit to be Held in the United States in 1976), 13 August 1975, *ibid.*

¹⁰³ *Ibid.* For the in-fight between Qiao and Wang, see Ma, *The Cultural Revolution in the Foreign Ministry of China*, 373-390.

¹⁰⁴ "CCPIT Delegation Visits the US," *U.S.-China Business Review* 2, no. 5 (1975): 18-23.

published copies of the Annual Reports of all U.S. firms for the reference library in their office.

The NCUSCT referred the request to the American Stock Exchange and Merrill Lynch.

Eventually Merrill Lynch provided the requested materials.¹⁰⁵

China also counted on the NCUSCT to recommend American traders to be invited not only to the Canton Trade Fairs but also to many mini-trade fairs. China previously had irregular mini-trade fairs specializing in bamboo products, foodstuffs, and certain kinds of textile products exclusively for Hong Kong, Macao, other overseas Chinese, or Japanese buyers. Beginning in 1975, China held more mini-fairs, opening them to Western buyers and indicating its intention to regularize them. For example, in March 1975, for the first time, China held a carpet fair in Tianjin, which 25 or so American businessmen attended. Bush and other U.S. Liaison Officers also visited the carpet fair. The NCUSCT began to regularly send representatives to the mini-fairs as they did for the Canton Fairs. One Chinese trade official explained that the specialized mini-fairs were to “complement and add to” the Canton Fair. Throughout 1975, China held at least six mini-fairs. The next year the number of the Chinese mini-fairs almost doubled.¹⁰⁶

In December 1974 prior to Christmas, the PRC Liaison Office invited all NCUSCT staff members to a food tasting party. In the party, the Americans tasted and viewed “a varied array of Chinese canned goods for exports”. It was reported that the Liaison Office held several similar parties for Chinese-American food importers and the China Division of the Bureau of East-West Trade in the Department of Commerce. To assist the Chinese efforts to promote foodstuffs in the United States, the NCUSCT magazine, *the Sino-American Business Review*, featured a long

¹⁰⁵ See The National Council for U.S.-China Trade records, Box 40, PRCLC-Annual Reports collected for Chinese, Ibid.

¹⁰⁶ “Mini-Fairs in China,” The National Council for U.S.-China Trade records, Box 77, Mini Fairs General 1976-1981, Ibid; “The Chinese Carpet Fair Tientsin, 1975: A Better Way to Buy From China,” *U.S.-China Business Review* 2, no. 2 (1975): 35-37; telegrams from U.S. Liaison Office in Beijing to the Department of State, 14 & 27 February, 4, 5, and 10 March, 1975, from American Consulate General in Hong Kong to the Department of State, 18 February, 6 & 7 March, 18 July 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

article entitled “Foodstuffs from China” in the first issue of 1975. This issue also mentioned that in order to enter the American low-acid food market, a provincial branch of the China Cereals, Oils and Foodstuffs Corporation had registered with the U.S. FDA.¹⁰⁷

Above all, China counted on the NCUSCT to keep the issue regarding China’s MFN status alive in U.S. domestic politics. Since early 1974, Chinese leaders had denied the importance of the MFN issue in front of American government representatives. They, however, tried to make an argument that the American people demanded MFN for China. On April 6, 1974, the *Cankao Xiaoxi* (Reference News), a Beijing newspaper that selectively translated and published reports from foreign press, noted that the NCUSCT requested U.S. Congress to grant China MFN treatment to facilitate Sino-American trade. On June 7, it mentioned that at an NCUSCT conference, some speakers pointed out that U.S. discriminatory tariff threatened the development of Sino-American trade. On August 8, it quoted a letter published in the *New York Times* that complained about the tariff issue in Sino-American trade.¹⁰⁸

When talking with private Americans, Chinese trade officials refrained from making direct comments on the importance of MFN status to China. They would, however, repeatedly state the facts regarding high U.S. tariff duties on Chinese goods and Sino-American trade imbalance. On September 19, 1974, Christopher H. Philips, President of the NCUSCT, asked Zhang Jianhua, Chinese commercial attaché, if the MFN issue was still important. He asked the question probably because he had learned that no Chinese questioned Senator Jackson about the

¹⁰⁷ “Council Activities, 1974-1975,” *U.S. –China Business Review* 2, no. 1 (1975): 12-16; Suzanne R., Reynolds, “Foodstuffs from China,” *ibid.*, 39-51; “Low-Acid Foods and China,” *ibid.*, 43.

¹⁰⁸ “Mei Zhong Maoyi Quanguo Weiyuanhui Yaoqiu Gei Wo Guo Zuihuiguo Daiyu” (The NCUSCT requested MFN status for China), *Cankao Xiaoxi*, April 6, 1974; “Mei Zhong Maoyi Quanguo Weiyuanhui Huiyi Qingkuang” (The NCUSCT conference), *ibid.*, June 7, 1974; “Mei Zhong Maoyi, Chenzhong de Guanshui” (Sino-American Trade, Heavy tariff duties), *ibid.*, August 8, 1974.

MFN issue during his visit to China in July. Zhang, however, refused to give Philips a straightforward answer. Their conversation went as follows:

Philips: “Is MFN still important?”

Zhang: This is [your] internal affair.

Philips: We need to know if you think MFN is [an] important issue. We can speak freely, since we are unofficial.

Zhang: Yes, we are old friends, but I cannot express view on this, no officials have.

Philips: Well, Minister of Foreign Trade and CCPIT president expressed views on this.

Zhang: Yes, our officials mentioned high tariffs, but we did not ask for MFN treatment. Even our Vice Premier, Li Xianian mentioned this tariff problem, but did not ask for MFN.

Philips: Is[your] position that tariffs are unreasonably high, but China does not wish to protest lack of MFN.

Zhang: Facts are clear. Though we have not asked for MFN, the discriminatory high tariffs hurt U.S.-China trade. Fact is known to all.¹⁰⁹

Philips then brought up the question of how and even if the NCUSCT should continue lobbying for China’s MFN status. He said, “It is difficult for me to go to Senator Jackson and tell him that lack of MFN is a problem. He says no one in China told him this was any problem at all.” Zhang replied by acknowledging Philips’ favorable testimony in front of Congress on this question. But he still evaded commenting on the importance of the question. Then Philips asked, “Should we give up trying?” This time Zhang’s answer was clear and firm, “No, this is why I say there is much for you to do and you will continue to do your level best.”¹¹⁰

In 1974, the Chinese seemed to be dissatisfied with the slow progress of the NCUSCT in assisting Chinese exports. In September, the CCPIT invited the American Importer Association (AIA) to visit China in October. On October 20, an article in the *New York Times* contrasted China’s war of words against the United States and its quiet solicitation of American importers. The article read:

¹⁰⁹ “Meeting with Mr. Chang Tsien-Hua (Zhang Jianhua)-Mr. Wang Tien-Ming (Wang Tianming),” 10 September 1974, The National Council for U.S.-China Trade records, Box 40, PRCLC-Correspondence (2), Gerald R. Ford Library.

¹¹⁰ Ibid.

China said last week that the United States was using foreign trade to ‘control and plunder other countries.’... While they were attacking the United States, the Chinese were hosts to a delegation from the American Importers Association that was visiting at the invitation of the CCPIT.

During the visit, the two sides discussed the common problems with Chinese exports. On the issue of MFN, the Chinese told the visitors that China would not ask for it, but they “would be pleased to have it offered to them.” After returning from China, the AIA formed a China Division.¹¹¹

Observing AIA’s China initiatives, the NCUSCT felt threatened. During the September 19 meeting with Zhang Jianhua, Philips politely expressed his disappointment with the fact that the CCPIT had bypassed the Council to deal with the AIA. He emphasized that the Council was the only [U.S.] organization “devoted exclusively” to Sino-American trade, including promotion of imports from China. What the CCPIT did, as Philips indicated, would only weaken the Council’s efforts. Philips informed Zhang that the number of importer members in the Council was “rising.” Zhang replied, “Cannot judge only by size of numbers...there is much for you to do.”¹¹²

To prevent the CCPIT from accepting AIA’s invitations to send a trade mission to the United States, Philips asked Zhang to remind the CCPIT of their agreement reached in Beijing in November 1973. According to the agreement, “any decision to send commercial groups from China to U.S. [should] be coordinated through NCUSCT.” Philips told Zhang that the Council had invited every Chinese Foreign Trade Corporation to visit the United States but had not received any replies.¹¹³

¹¹¹ Richard, Halloran, “China Plays Host to U.S. Importers,” *New York Times*, 20 October 1974; Memorandum to the AIA members, “Trade with China,” 11 November 1974, The National Council for U.S.-China Trade records, Box 249, American Importer Association, Gerald R. Ford Library; and Memorandum from Nicholas Ludlow to Philips, etc., “AIA’s China Division,” 22 November 1974, *ibid.*

¹¹² “Meeting with Mr. Chang Tsien-Hua (Zhang Jianhua)-Mr. Wang Tien-Ming (Wang Tianming),” 10 September 1974.

¹¹³ *Ibid.*

At the 1974 Fall Canton Fair, NCUSCT Vice President Theroux personally invited each Chinese Foreign Trade Corporation to send a trade mission to the United States. Theroux told all of them that they should come to the United States at the invitation of the NCUSCT, not the AIA. Generally speaking, the corporation representatives were eager to discuss with Theroux the problems with Chinese exports. The representative from the Light Industrial Products Corporation said to Theroux, “[We] have to sell a good many light industrial products to pay for a Boeing.” Representatives from the Textile Corporation and the Native Produce and Animal By-Product Corporation indicated that they would accept Theroux’s invitations.¹¹⁴

In 1975, at the invitation of the NCUSCT, four Chinese trade delegations visited the United States. The first three were respectively from the Textile Corporation, the CCPIT, and the Arts and Crafts Division of the Light Industrial Products Corporation. In reference to the third delegation, Commercial attaché Zhang Jianhua asked the NCUSCT “not to make a big thing of this” because “this will be but the first of many, frequent missions.”¹¹⁵ Between the Arts and Crafts mission in September 1975 and the fall of the Gang of Four in October 1976, four more Chinese trade missions visited the United States. Among them were two additional missions from the Light Industrial Products Corporation. American businessmen noticed Chinese efforts to promote their light industrial products but were simply not impressed by their products. In mid-1976, Boulogne from J.C. Penny commented that the Chinese had too much to catch up on

¹¹⁴ Memorandum of Conversation between Theroux and Chinese representatives at the Canton Fair., October-November 1974, The National Council for U.S.-China Trade records, Box 31, PRCLC-Correspondence (2), Gerald R. Ford Library.

¹¹⁵ Memorandum of Conversation between Zhang Jianhua etc., and Philips, etc, 24 July, The National Council for U.S.-China Trade records, Box 40, PRCLC-Correspondence (5), Gerald R. Ford Library.

in this area.¹¹⁶ After the fall of the Gang of Four, the number of Chinese trade delegations to the United States rose steadily.¹¹⁷

The Textile Mission to the United States

Since 1972, textile products, especially cotton fabrics, had been the PRC's largest export to the United States.¹¹⁸ Thus it was not a surprise that the Textile Corporation was the first of Chinese Foreign Trade Corporations to formally accept the NCUSCT's invitation. Between mid-February and late-March, 1975, a five-person delegation from the China National Textiles Import and Export Corporation visited the United States. The leader of the delegation was Han Fanyu, Deputy Director General of the Textiles Corporation. Other members included Huang Qianmo, Han's interpreter and also a general responsible person, Wang Mingsheng, a silk specialist, Zong Wenzhe, a greige goods and piece goods specialist, and Ma Hangsheng, a garment specialist.¹¹⁹

The mission represented a major Chinese effort to rectify the decline of Chinese textile exports. Chinese trade officials understood that the decline was partly because the international textile market was depressed. However, they believed that the main reasons lay in themselves: "The main reasons...are that our prices are not very competitive, our trading practices are somehow inflexible, and that our designs and assortments are kind of inferior, etc." And they believed that China could take on these problems and rectify the situation: "We should take immediate and effective actions to improve our competitiveness on the international market,

¹¹⁶ Julian Sobin Interview with Robert Boulogne,

¹¹⁷ "Visiting Delegations Sponsored by the National Council for US-China Trade," undated, The National Council for U.S.-China Trade records, Box 71, Canton Fair—Briefing (6), Gerald R. Ford Library.

¹¹⁸ See "US-Chinese Economic Relations," table 1.

¹¹⁹ Eugene Theroux, Vice President of the National Council, personally extended the invitation during a meeting with Huang Qianmo, a representative of the Textiles Corporation at the Canton Trade Fair on November 6, 1974. See "Theroux and Randt meetings with FTC representatives: Fall Fair 1974," The National Council for U.S.-China Trade records, Box 31, CCPIT-Correspondence (2), Gerald R. Ford Library. For the Chinese letter to accept National Council's invitation, see "Chinese Textile Mission to Visit the US at Invitation of the National Council," *U.S.-China Business Review* 2, no. 1(1975): 13.

regain the share that we have lost, strengthen and advance our position in our traditional markets such as Hong Kong, Macao, and Western Europe, and strive to open new markets....”¹²⁰

A main purpose of the textile mission was to study the American market. The delegation attended the New York fashion shows and inspected different aspects of the American textile industry. They visited seventy or so companies across the United States, most of which had done business with the Textiles Corporation. They also met with a wide range of American private organizations and U.S. officials from the Department of State and Commerce. The delegation was primarily, but not exclusively, concerned with exports to the United States. They spent most of their time in New York because, as Han explained, most of their customers were in the area.¹²¹

On February 20, the National Council held a major presentation for the delegation at the World Trade Institute in New York to “introduce the Chinese to the U.S. textile market and problems of importers of Chinese textile goods.” Leading members of the U.S. textile and banking community participated in the presentation. The subjects that they addressed included marketing, financing, shipment, and fashion trends. For instance, Lois Zeigler from the J.C. Penny Company pointed out that every six weeks, new ideas were introduced to consumers in the United States. He indicated that the China Textiles Corporation should consider the changes in trends in order to expand its exports to the United States. Due to the nature of fashion, shipping on time was essential. Jack Shamash from Shamash and Sons pointed out that late

¹²⁰ Chinese Ministry of Foreign Trade, “Some Problems and Suggestions Regarding Our Current Textile Exports.”

¹²¹ In addition to New York, they visited Washington D.C., Philadelphia, Baltimore, Charlotte, St. Louis, Los Angeles, Bakersfield, and San Francisco. Besides the National Council, the organizations that they met with included American Textile Manufacturers Institute, the National Cotton Council of America, American Importers Association, and the National Bureau of Standards, American Society of Testing and Materials. See “Chinese Textile Mission Visits the US,” *U.S.-China Business Review* 2, no. 2 (1975): 20-24; and telegram from U.S. Liaison Office in Beijing to the Department of State, 10 February 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

shipments had been a persistent problem for Chinese exports and created serious problems to American importers.¹²²

Shamash also spoke on the subject of finance, raising the issue regarding the choice of currency for payments. China preferred to receive the payments for its exports in RMB. However, the RMB rate was not as stable as U.S. dollars on the international market. Shamash explained that “sales in dollars would create long-term contracts for China since the importer would be able to sell futures without a foreign exchange risk.” He stressed that “the most important financial suggestion” that American importers had was “dollar denomination of contracts.”¹²³

When receiving the Chinese delegation, individual U.S. companies also raised numerous matters that limited their profit potentials of their trade with China. Inspection of Chinese factories was a most important subject during these meetings. U.S. importers desired to meet with producers of the Chinese exports and inspect the finished goods prior to shipment. By contacting the Chinese producers, the U.S. importers believed that they could help the Chinese to improve the quality and design of their products much more effectively. In addition to the issues regarding quality and U.S. standards, the U.S. companies particularly emphasized the importance of private labels to promote Chinese products. Moreover, with private labels, retailers would be able to set a higher price for the Chinese goods. The U.S. importers also requested shorter lead time, complained about delayed shipments, and asked for earlier invitations to the Canton Trade

¹²² “Chinese Textile Mission Visits the US.”

¹²³ Ibid.

Fair. When it came to price, they asked the Chinese to consider the retail and wholesale differential when quoting prices.¹²⁴

The delegation was not only concerned with general discussions but also with doing actual business. They signed both selling and buying contracts. On the import side, they bought some synthetic fabrics. For their exports, they offered reduced prices and indicated the possibility of denominating some contracts in dollars. Moreover, they indicated that they might move further from double labels to single, private labels in the future. They also promised to “take further steps” to improve shipment time to the United States.¹²⁵

It is evident that the American importers were delighted with the visit by the Chinese textile delegation. They were eager to take the opportunity to persuade the Chinese to modify their products and trading practices to accommodate American demands. Paul Goldberger from C. Tennant, Sons said, “The importers have worked very hard to help you establish your fabrics in this market and are continuing to do so. We are always ready to lend you all assistance....”¹²⁶

American textile manufacturers, however, welcomed the Chinese delegation with suspicion. On February 26, *Daily News Record* and *Women’s Wear Daily* reported on the Chinese mission, quoting several manufacturers as advocating import controls on Chinese cotton textiles. According to the reports, Howard Richmond, Chairman of the Foreign Trade Committee of the American Textile Manufacturers Institute (ATMI), commented: “The PRC represents a near-term threat because of its past practices of political pricing. Therefore we have urged the USG to consider negotiations with China regarding a bilateral agreement....” The reports, however, also quoted an AIMI spokesmen as saying that the AIMI would have no comment on

¹²⁴ Ibid. The practice of double labels with both the Chinese and US brand names began in fall 1973. See Chapter III, 30. It became relatively standard practice by fall 1974. “Kwangchou Diary Spring 1975” mentioned that the Chinese textile mission to the United States in February and march offered lower prices to U.S. buyers.

¹²⁵ Ibid

¹²⁶ Ibid., 23.

the Chinese mission.¹²⁷ According to the *New York Times*, the Chinese delegation responded to the controversy by “canceling visits to Southern textile plants.”¹²⁸

The Chinese had hoped to keep the mission from publicity. They would not even admit that the mission was the first PRC trade mission to the United States. A week before the Chinese delegation’s departure for the United States, a U.S. officer made a remark to that effect at a reception for the delegation hosted by the U.S. Liaison Office. Cheng Tupin, Chief of the Third Department in the Ministry of Foreign Trade, immediately “took exception to” that remark. Cheng tried to downplay the significance of the mission by emphasizing that it was only a “small group.” The presence of Li Chuan, Vice President of the CCPIT, and Cheng himself in the reception, however, disclosed the importance that the Chinese government attached to the textile mission. Nonetheless, Cheng indicated that China hoped that the visit would be “low key and not widely publicized affair.”¹²⁹

The deliberate low key approach of the mission explained why *Women’s Wear Daily* called it a “hush-hush visit.” After the reports by the two textile newspapers, however, the National Council and the Chinese delegation had to handle the issue of publicity. The *New York Times* even sought to interview the delegation. The PRC Liaison Office called Philips, President of the National Council, to “reemphasize [the] delegation’s refusal to meet the press and its displeasure with [the] press reports.”¹³⁰ According to the *New York Times*, “At one point a

¹²⁷ Telegram from the Department of State to U.S. Liaison Office in Beijing, 6 March 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

¹²⁸ Isadore Barmash, “Chinese Seek Wider U.S. Textile Ties,” *New York Times*, 8 March 1975.

¹²⁹ Telegram from U.S. Liaison Office in Beijing to the Department of State, 10 February 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

¹³⁰ Telegram from the Department of State to U.S. Liaison Office in Beijing, 6 March 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

mission member passed a message to a reporter: ‘Please do not harass us further or we will pack our bags and go home.’”¹³¹

Philips managed to mollify the Chinese. On February 28, the National Council issued a press release to explain the purpose of the mission and counter the argument that Chinese textiles threatened to disrupt the U.S. market. The release emphasized silk over cotton in the delegation’s activities and that American cotton sellers also met the delegation. Most importantly, it stressed that the market share of Chinese textiles in the United States was actually very low. It noted that in 1974 the value of U.S. textile-related exports to China was more than five times that of the U.S. total textile imports from China. The U.S. government was glad to see the passage of this episode. In the meantime, it thought the episode might be “constructive for the Chinese to learn first-hand from [the] industry leaders how strong the feeling for import controls is.”¹³²

It is interesting to note that, according to Boulogne from J.C. Penny, the cotton mills were actually the largest buyers of Chinese greige goods in the United States. The mills could not meet the demands for certain constructions and had to import them from China to make up the shortage. Boulogne thought that it was especially amusing that the people belonging to the mills made such noise against China and were importing at the same time. ¹³³

Ironically, it was in the middle of the Chinese textile mission when Beijing made the first cancellation of American raw cotton. Nonetheless, the delegation visited Bakersfield, California, to see the cotton that was in the process of delivery and met representatives from AMCOT that consisted of four cotton cooperatives. The AMCOT representatives expressed the cotton growers’ interest in continued business with the PRC. The Chinese were appreciative of their

¹³¹ Barmash, “Chinese Seek Wider U.S. Textile Ties.”

¹³² Telegram from the Department of State to U.S. Liaison Office in Beijing, 6 March 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

¹³³ Julian Sobin Interview with Robert Boulogne.

interest, saying that China might continue to buy cotton from the United States when time was right.¹³⁴

Impact of the Textile Mission

Following the textile mission, the China Textile Corporation made greater efforts to accommodate the American buyers. At the 1975 Spring Canton Fair that opened a few days before the Chinese textile mission left the United States, it was reported:

The Textile delegation was among the first to accede to U.S. buyer pressure for contracts in U.S. dollars, and importers also reported a noticeably increased willingness on the part of the Chinese to accommodate special buyer requirements in quantity discounts, design, specifications, labeling and shipping of items of apparel.

At the fair, the National Council representatives met Wang Mingsheng, who had just returned from the United States. At first, Wang seemed to be concerned with the business. By mid-Fair, Wang seemed to be pleased and was “displaying the broad smile.” On April 26, Han Fanyu, the leader of the textile mission, arranged a banquet in Beijing for Theroux, Vice President of the National Council.¹³⁵

By the 1975 Fall Canton Fair, China had taken some of the suggestions that the textile mission had collected in the United States and made them into official policies. The Chinese Ministry of Foreign Trade reported the newly adopted practices at the 1975 Fall Fair. First, China allowed the Americans to choose a dollar denomination for the contracts. Second, China accepted the use of private labels for its exports to some of the American department stores. Third, for those highly seasonal products, China tried to make certain arrangements to shorten the delivery time. For example, if the U.S. importers promised not to sell the goods in Hong Kong, China agreed to complete the transactions in Hong Kong and let the importers themselves arrange shipments from Hong Kong to the United States. Furthermore, China accepted

¹³⁴ “Chinese Textile Mission Visits the US.”

¹³⁵ “Kwangchou Diary Spring 1975,” 43-49.

customers' materials for processing and encouraged transit trade via Hong Kong to evade the discriminatory U.S. duties on Chinese goods. For example, the Chinese accepted polyester fabrics supplied by clients for processing into embroidered pieces. The embroidered pieces would be exported to Hong Kong for processing into ready-made clothes. These clothes would then be exported to the United States as Hong Kong goods.¹³⁶

At least in the fall of 1975, "be flexible" must have been a well-articulated policy issued from the central government. To show that the policy was loyally carried out at the 1975 Fall Canton Fair, a report by the Ministry of Foreign Trade even quoted the representatives from the NCUSCT as praising the newfound flexibility of Chinese trade officials. This report would be submitted to the core leaders, including members of the Gang of Four.¹³⁷

The 1975 Fall Fair was attended by over six hundred Americans representing five hundred or so companies. It was a record number resulting from the relaxation of Beijing's controls on invitations to the Americans. Two-thirds of the American attendees at the fair were newcomers. Some major firms went directly to Beijing for negotiations. Some, after a brief stop at the fair, went to other cities to conclude business with the foreign trade corporations' branch offices. For the Chinese Textile Corporation, about fifty percent of their customers at the fair were new. As a result, the Chinese negotiators had to conduct numerous negotiations that, in many cases, only involved modest volumes of transactions. Some Chinese negotiators complained about "big troubles for small contracts." The Chinese Ministry of Foreign Trade, however, asked its officials to overcome that kind of mentality and spare no pains to introduce

¹³⁶China itself did not have the supply of polyester fabrics at the time. See Chinese Ministry of Foreign Trade, "Qiuji Jiaoyihui wo Fangzhipin Banyue lai dui Mei Chukou Chengjiao Qingkuang," (The Status of Our Textile Exports to the United States for the First Half Month of the Fall Fair) 6 November 1975, 235-2-220, Guangdong Provincial Archives, Guangzhou, China.

¹³⁷ Ibid.

Chinese products to all customers.¹³⁸ The wide range of American invitees reflected China's desire to open up the American market even wider.

Around the time of the 1975 Fall Fair, the Chinese Textile Corporation also invited John Burr Fairchild, head of the Fairchild Publications that published *Women's Wear Daily*, to Beijing. According to Fairchild, every morning for one week, he met with Huang Qianmo to discuss the Chinese textile market. Huang was a member of the PRC textile mission to the United States earlier that year. One night Fairchild was even taken out by Wang Mingzhen, who was the director of the Chinese Textile Corporation and senior to Madam Han, the leader of the textile mission to the United States in the spring. During the dinner, Wang preached to Fairchild that U.S.-USSR détente was a big mistake, as the Chinese normally told every American visitor in Beijing. Nonetheless, the Chinese Textile Corporation's activities in both Guangzhou and Beijing showed the great importance that China attached to the American market.¹³⁹

The Americans were fairly impressed by the fair. The National Council reported that most American attendees "found their Chinese hosts eager to sell, and in some cases to buy, on terms generally regarded as more realistic...and accommodating than any available since 1973." The National Council representatives at the fair heard, for example, that the China Textiles Corporation granted exclusivity to some U.S. buyers for certain greige goods. They also heard that "Chinese were now permitting some American importers to insert their own labels in

¹³⁸ See Chinese Ministry of Foreign Trade, "Qiuji Jiaoyihui wo Fangzhipin Banyue lai dui Mei Chukou Chengjiao Qingkuang" (The Status of Our Textile Exports to the United States for the First Half Month of the Fall Fair), 6 November 1975, China and "Qiuji Jiaoyihui Meishang daohui Qingkuang ji Fanying" (The Status of American attendance at the Fall Fair and their suggestions), 14 November 1975, 235-2-220, Guangdong Provincial Archives, Guangzhou, China. See also "Canton Fair Fall 1975: Up From the Spring Doldrums;" telegram from American Consulate General in Hong Kong to the Department of State, 18 November 1975, and telegram from U.S. Liaison Office in Beijing to the Department of State, 16 December 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

¹³⁹ "Letter from Suzanne Reynolds to NL."

imported clothing.”¹⁴⁰ The report from the American Consulate General in Hong Kong also confirmed that “to an unprecedented extent,” the Chinese Textile Corporation negotiators “were agreeable to requests for private labeling, styling and constructions.”¹⁴¹ The Americans also learned that to smooth delivery China asked the China Travel Service (CTS) in Hong Kong to coordinate the transshipments of Chinese exports. The CTS’s new responsibility included “loading merchandise on departing vessels and maintaining liaison with buyers.”¹⁴²

As a result of these efforts, China saw a steady growth of its textile exports to the United States from \$15 million in 1973 to \$45 million in 1975 and \$63 million in 1976.¹⁴³ This increase worried the U.S. cotton mills. On February 9, 1976, Philips told Zhang Jianhua that “recently 130 members of the House wrote to President Ford about the growth of these imports.” Zhang replied in exasperation:

[The balance of] Sino-U.S. trade for the past few years is clear to all of us.... We meet as old friends so I tell you what I think. In the situation above, we say no American friends took any action to try to rectify the situation.... I am at a loss to see what Americans are doing to improve the trade between our two countries. There are many obstacles to the question of trade between our two countries. From the Chinese side we have said nothing official. Now this because of a small increase in exports of cotton piece goods from China, we cannot but doubt the sincerity of the interest of the [U.S.] departments concerned.¹⁴⁴

The textile issue later became the most controversial problem during Sino-American negotiations for a trade agreement in 1979.

In the eyes of American importers of Chinese textiles, Chinese progress was only too slow. Both U.S. officers in Hong Kong and NCUSCT representatives reported that some Chinese were reluctant to cooperate with newcomers and small importers on the issue of private labeling.

¹⁴⁰ “Canton Fair Fall 1975: Up From the Spring Doldrums,” *U.S.-China Business Review* 2, no.6 (1975): 54-56.

¹⁴¹ Telegram from American Consulate General in Hong Kong to the Department of State, 18 November 1975 (Online version on April 20, 2009, available through the online catalog of NARA-AAD).

¹⁴² “Canton Fair Fall 1975: Up From the Spring Doldrums,” *U.S.-China Business Review* 2, no.6 (1975): 54-56.

¹⁴³ “US-Chinese Economic Relations,” table 1.

¹⁴⁴ Memorandum of Conversation, “Textile Meeting at the Chinese Liaison Office,” 9 February 1976, The National Council for U.S.-China Trade records, Box 40, PRCLO-Conversation with Officials, Gerald R. Ford Library.

Big importers were confused by China's handling of exclusives. In the 1976 interview, Boulogne from J.C. Penny told Sobin, "they [the Chinese] are giving exclusives to several buyers and it gets very confusing because the exclusives sometimes are very hard to define." According to him, the Chinese sold flannel shirts, on which J.C. Penny and some other people were supposed to have exclusives, to a third buyer by changing the construction slightly. As for the inspection of factories, the Chinese were particularly stubborn. Boulogne told Sobin that to his requests to inspect the merchandise being produced for J.C. Penny, "they [the Chinese] have not said no but in their polite way they have not said yes either."¹⁴⁵

While hoping for further improvement in China's trading practices, the foreign traders worried that even the very slow progress could be reversed at any moment if the radical elements in China took over. If that occurred, Sobin speculated, "all this investment you've made in time and effort and so forth may be out the window or something." The only thing to do at this point was to just "sit and worry about it" like the others.¹⁴⁶

The CCPIT Visits to the United States

The NCUSCT had expected the CCPIT to return its visit of November 1973 in 1974. Probably due to the domestic political circumstances, the CCPIT postponed the trip to 1975.¹⁴⁷ In September, the CCPIT sent the first Chinese high-ranking, broadly-based trade mission to the United States. President Ford personally greeted the delegation in the White House. Numerous senior officials and Congressmen also met with the delegation.¹⁴⁸ During the gloomy time in the

¹⁴⁵ Julian Sobin Interview with Robert Boulogne.

¹⁴⁶ Ibid.

¹⁴⁷ Letters from the NCUSCT to the CCPIT, 27 November and 6 December 1973, 10 April, 26 July, 20 and December 1975, The National Council for U.S.-China Trade records, Box 31, CCPIT-Correspondence (1), Gerald R. Ford Library. Letter from Philips to all members of the NCUSCT, 29 April 1975, The National Council for U.S.-China Trade records, Box 31, CCPIT-Correspondence (3), Ibid.

¹⁴⁸ Memorandum of Conversation between Zhang Jianhua, etc. and Philips, etc., 24 July 1975; and "CCPIT Delegation Visits the US."

U.S.-PRC normalization process, this highly publicized trade mission sent a strong signal that both Beijing and Washington were committed to a constructive bilateral relationship.

Li Chuan, Vice Chairman of the CCPIT, led the ten-man delegation. Other members included directors or vice directors of five Chinese Foreign Trade Corporations, including the Corporations of Metal and Mineral, Machinery, Native Produce and Animal By-product, Light Industrial Products, and Cereals, Oils and Foodstuff.¹⁴⁹ Although the delegation would not accept any interviews, they allowed the company of media people during their visit. They did not object to photo-taking and live television coverage. The NCUSCT had hoped to issue a joint statement with the CCPIT at the conclusion of the visit. The Chinese, however, only agreed to separate press releases. At the end of the visit, nonetheless, the NCUSCT announced that the two institutions reached agreements on a series of legal issues regarding dispute settlement, inspection procedures, standard contract language, and industrial property rights.¹⁵⁰

The mission was more than a political symbol. The delegates had real business in mind. Through the PRC Liaison Office, the CCPIT requested to visit places that were directly related to China's immediate economic needs. The delegates requested a visit to a computer firm where they would not only visit the plant but also hold discussions with representatives from IBM, CDC, Burroughs, Honeywell, and Sperry Rand. They also wanted to visit a steel plant that should "be new, modern and employ the very latest technology." Given China's efforts in for oil exploration, it came as no surprise that they asked to visit "a factory in Houston that manufactures petroleum equipment for both on and off-shore drilling operations." Consistent with China's desire to increase its foodstuff exports, the delegates also requested to see "a food-processing plant, such as a canning factory and candy-making factory." The PRC Liaison

¹⁴⁹ Ibid

¹⁵⁰ Ibid.

commercial officer emphasized that for these visits, the delegation wished to “maximize the time” spent in the factories, and “minimize the time” spent in the executive offices.¹⁵¹

In September 1977, to return the NCUSCT’s visit in October 1976, the CCPIT sent a second delegation to the United States. Wang Yaoting, Chairman of the CCPIT, led the delegation of fifteen people, including representatives from the Technical, Machinery, Chemical Corporations and various Chinese industrial societies. The NCUSCT called it “the highest-ranking trade delegation from the People’s Republic of China yet to visit the U.S.” Vice President Walter F. Mondale and many other American public figures met with the delegation.¹⁵²

As for business, this delegation made “a country-wide technology survey tour.”¹⁵³ It confirmed many people’s anticipation that Beijing was on the way to another shopping spree. Indeed, with the fall of the Gang of Four and the restoration of Deng, the economic spirit in Beijing resembled that of 1972-1973. In addition, the slight trade surplus that China had with the United States in 1976 and 1977 meant that China now had the money to buy.¹⁵⁴ In the spring of 1977, the *China Business Review* reported that the “Chinese [were] in best buying mood” in years:

Chinese FTC [Foreign Trade Corporations] seemed to have completed their final ‘study groups’ in late February and now, armed with new budget appropriations, prepared to sign contracts. One leading American negotiator reported [that] he had signed three contracts by the middle of March with several additional sales pending. Other leading China traders are known to be shuttling back and forth between Peking and various corporate headquarters.¹⁵⁵

¹⁵¹ Ibid.

¹⁵² “Council Activities,” *The China Business Review* 4, no.5 (1977): 13-16.

¹⁵³ Ibid.

¹⁵⁴ Deng was restored to office in July 1977. See Deng, *Deng Xiaoping and the Cultural Revolution*, 440.

¹⁵⁵ “Exporter’s Notes,” *China Business Review* 4, no. 2, (1977): 44-47.

By late 1977, China had renewed its wheat and cotton imports from the United States as well as increasing technological imports. In 1978, Sino-American trade surpassed the 1973-1974 level, with the total value topping \$ 1 billion.¹⁵⁶

Yet the old problem of the trade deficit returned. In 1978, the trade balance between the PRC and the United States was 1 to 2.5.¹⁵⁷ The new leadership under Hua Guofeng, who was handpicked by Mao, seemed to be incapable of solving the problem. Hua was well-known for his two-whatever policy: “We firmly support whatever decisions Chairman Mao made. We eternally follow whatever instructions Chairman Mao gave.”¹⁵⁸ In Hua’s China, as the absence of foreign debts and foreign investments continued to define “self-reliance,” China would not be able to sustain its shopping spree. Moreover, as ideological politics continued to command the economy, it was doubtful that Chinese productivity would increase rapidly to meet the demands of foreign buyers. By 1979, China’s buying mood had led China into a total trade deficit of \$1.8 billion, of which over \$1 billion was with the United States.¹⁵⁹ The situation resembled that of 1974. The trade deficit could force China to drastically scale down its imports once again and consequently slow down its modernization programs.

In both Mao’s and Hua’s China, the Chinese consistently demonstrated their desire to develop trade with the United States. In a narrow sense, they minimized the interference of politics, domestic and bilateral, with Sino-American trade. American businessmen consistently reported that their negotiations with Chinese trade officials were generally devoid of politics. The low level of Sino-American transactions between 1975 and 1977 was basically because

¹⁵⁶ See “US-Chinese Economic Relations,” table 1.

¹⁵⁷ Ibid.

¹⁵⁸ Quoted from Deng, *Deng Xiaoping and the Cultural Revolution*, 444.

¹⁵⁹ “Chinese Trade,” *The Washington Post*, 8 February 1980; De Pauw, *U.S.-Chinese Trade Negotiations*, 5.

China suffered a severe shortage of foreign exchange. This financial crisis was a consequence of the historic expansion of Chinese imports from the West in 1973 and 1974.

During the years between 1974 and 1977, China took many initiatives to increase its ability to buy. As a short-term solution, the Chinese took pains to improve their products and shipments as the Western buyers requested. The result was a modest increase of Chinese exports. Seeking a long-term solution, China went to extreme lengths to explore its offshore oil reserves, hoping the potential oil boom would bring it the needed foreign exchange. The offshore oil exploration itself, however, required advanced equipment and technology. As Huang Zhen indicated in September 1974, China considered exchanging its oil for the needed capital goods from the United States.¹⁶⁰

In a broad sense, however, politics inevitably limited the potential of Sino-American trade. China maintained a planned economy based on socialist orthodoxy, which apparently had failed to liberate Chinese productivity. As many Western Canton Fair attendees observed, the most fundamental problem with Chinese exports was the persistent shortage of its export commodities. Boulogne believed that essentially it was because the Chinese system did not create the incentive and therefore negatively affected its productivity. Besides, Boulogne pointed out that China's nontransparent system left the foreign importers in "total darkness." Boulogne deplored, "It's the only market that I know of where we really cannot do any planning." He explained: "You [the importers] don't know what the price will beyou don't even know if it's [the desired commodities] available.... you go before the Fair and they're waiting for the Fair to set the prices. You go after the Fair and maybe it's too late, everything is sold out."¹⁶¹

¹⁶⁰ See telegrams from U.S. Liaison Office in Beijing to the Department of State, 21 September 1974 [Online version on December 2, 2008, available through the online catalog of NARA-AAD].

¹⁶¹ Ibid.

As for bilateral politics, the lack of normal diplomatic relations did not prevent the Chinese from seeking American equipment and technology. However, it and Chinese domestic politics both shaped the way in which the Chinese conducted business. For instance, the Chinese refused to fill out U.S. government end use forms on the ground that recognition of these forms would inappropriately imply China's recognition of the U.S. government.¹⁶² This attitude caused a lot of trouble to many contracts involving U.S. firms directly or indirectly. In addition, the lack of MFN status continued to have a negative impact on Chinese exports to the United States. A resolution on this issue had to await normalization.

Between 1974 and 1977, the numerous mutual visits between the Chinese and American people might not always have resulted in sales, but they certainly taught the Chinese what went wrong with their production and trade systems. They also helped the Chinese to develop an extensive understanding of the U.S. economic system. As the trade contacts intensified, many Chinese officials must have realized that in order to fundamentally solve China's economic problems, they must bring market and material incentives back to China's economic life. In December 1978, the Chinese and U.S. government finally set a definite date for normalization. In the same month, the Chinese government finally made up its mind to abandon the principle that politics commands the economy. These two historic developments would eventually liberate Sino-American trade from previous restraints.

¹⁶² Julian Sobin Interview with Hugh Donahue.

POSTSCRIPT AND CONCLUSION

Sino-American Economic Normalization

1978-1980

For many years, our economic development efforts yielded poor results. They demanded a great deal of effort while providing few rewards. Beside the economic system, there were other problems, such as the closed-door policy, which made self-reliance an absolute virtue. It became an ideological pursuit and was politicized.

-- Former Chinese Premier and General Secretary Zhao Ziyang¹

The visit of China's spry, shrewd Vice Premier Teng Hisao-p'ing [to the United States between January 28 and February 5, 1979] is the stunning climax of the Great Leap Outward that he conceived, planned and executed for China after decades of xenophobic isolation.

-- *Time*, February 1979²

China's "Reform and Opening-up" should be called "Opening-Up and Reform." The Opening-up created the conditions for the Reform. The Opening-up pushed the Reform forward. The open-door environment played a critical role in defining China's Reform as to develop a market economy.

-- Chinese historian Xiao Donglian³

On January 24, 1980, the U.S. House and Senate passed the Sino-American trade agreement by large margins. This agreement had been signed on July 7, 1979, including mutual granting of MFN status and promising the availability of U.S. Export and Import Bank credits. On February 1, 1980, this agreement went into effect.⁴ Since then, the United States and China have developed a highly interdependent economic relationship.

¹ Zhao Ziyang, *Prisoner of the State* (New York: Simon & Schuster, 2009), 134.

² "Teng's Great Leap Outward," *Time*, February 5, 1979.

³ Xiao Donglian, "How Did China Open Its Door to the Outside World: The Decision-Making Process Leading up to China's Opening Era," Presented to the international conference entitled *Transforming the Cold War: China and the Changing World, 1960s-1980s*, China Normal University, Shanghai, December 19-21, 2006.

⁴ "The Way Ahead: Exim and OPIC Expected Within a Year," *The China Business Review* 7, no. 1 (1980): 14-16. For the text of the agreement, see "The Sino-US Trade Agreement, July 7, 1979," *The China Business Review* 6, no. 4, (1979): 24-26.

By and large, China normalized its economic relations with the United States on American terms. By signing the trade agreement, the Chinese pledged to follow “customary international trade practice” and respect American laws.⁵ This agreement cleared a major obstacle in China’s way to joining major world trade institutions. In 1980, China became formal members of the International Monetary Fund (IMF) and the World Bank. In 1982, China became an observatory member of the General Agreement on Tariffs and Trade (GATT).⁶ When China became determined to join these institutions that were set up for the American vision of world order, the Cold War as a competition between the two world systems ended in China in an American triumph.

Above all, to perpetuate the open-door policy, China’s economic reform went further and further. At the end of 1978, China began to perceive “absorbing foreign capitals” as a key for sustaining its technological imports. In the years to come, it would endeavor to build a favorable investment environment. That effort would quickly erode the foundation of the Chinese planned economy and direct its reform to the direction of a free market economy. The narrow opening of 1972-1973 eventually turned into a market revolution in China.

The Political Normalization

Sino-American political normalization was a prerequisite to economic normalization. The Soviet threat, which intensified in the late 1970s, provided a renewed impetus for the United States and China to complete their prolonged normalization process. Moreover, at that time, Beijing began to place unprecedented emphasis on Chinese economic development. China’s economic concerns gave China a decisive incentive to seek an early normalization.

⁵ See “The Sino-US Trade Agreement, July 7, 1979.”

⁶ Nicholas R. Lardy, “China and the International Financial System,” *China Joins the World: Progress and Prospects*, 206-230; Margaret M. Pearson, “China’s Integration into the International Trade and Investment Regime,” *ibid.*, 161-205.

For the United States, the Soviet threat was the ultimate accelerator for Sino-American normalization. In his first year in the Oval Office, President Jimmy Carter was content with the status of U.S.-Soviet Détente and showed little interests in China. In August 1977, he sent Secretary of State Cyrus Vance to Beijing to explain U.S. positions on the concerned bilateral issues. Vance indicated that after normalization, the U.S. government planned to maintain official representatives in Taiwan “under unofficial arrangements.” China immediately rejected the U.S. proposal.⁷

Beginning in 1978, military coups and civil wars spread in Africa and the Middle East. Carter blamed the Soviet Union for this unrest and began to develop a strong interest in immediate Sino-American normalization. In May 1978, he sent National Security Adviser Zbigniew Brzezinski to Beijing to inform the Chinese that the United State had “made up its mind.” The United States was prepared to meet the three Chinese demands: U.S. termination of official relations with Taiwan, withdrawal of all American military personnel and installations from Taiwan, and abrogation of the defense treaty with Taiwan. In return, the United States made two demands. First, the United States would issue a unilateral statement expressing its interest in a peaceful resolution of the Taiwan question. It asked China not to counter that statement. The more sensitive issue was about U.S. arms sales to Taiwan. The United States expected China to respect its right to continue its arms sales to Taiwan after normalization. China did not immediately respond to the two U.S. conditions.⁸

⁷ Ross, *Negotiating Cooperation*, 102-116. For an overview of Sino-American normalization negotiations between 1977 and 1978, see, Michael Oksenberg, “Reconsiderations: A Decade of Sino-American Relations,” *Foreign Affairs* 61, no. 1 (1982), 175-195; Harding, *A Fragile Relationship*, 67-81; and Mann, *About Face*, 78-92. See also, Zbigniew Brzezinski, *Power and Principle* (New York: Farrar, Straus, Giroux, 1983); Jimmy Carter, *Keeping Faith* (Fayetteville: University of Arkansas Press, 1995), Vance, *Hard Choices*, and Huang Hua, *Qinli yu Jianwen*, 246-251.

⁸ Ross, *Negotiating Cooperation*, 120-125, 128-132.

After a few months of silence, in early October, Foreign Minister Huang Hua told Secretary Vance that China would not accept U.S. arms sales to Taiwan after normalization. In the same month, however, Deng Xiaoping publicly stated that China was willing to negotiate with the United States for early normalization. Before the end of the month, the United States had drafted a communiqué calling for normalization on January 1, 1979.⁹

On November 2, Leonard Woodcock, head of the U.S. Liaison Office in Beijing, presented that communiqué to Huang Hua. For over a month, Beijing could not decide if it should adopt the communiqué.¹⁰ It was probably because the Chinese leadership could not reach a consensus on the issue of U.S. arms sales to Taiwan. Some of them might have called for a formal rejection of that condition as well as postponement of normalization. Others might have argued that China should ignore that issue for the time being and complete normalization first.

On December 13, 1978, Deng summoned Woodcock. He personally accepted the first U.S. demand regarding a U.S. unilateral statement on the Taiwan issue. He evaded responding to the second U.S. demand regarding the arms sales. Given the fact that the U.S. government had repeatedly presented its positions to the Chinese, Deng had to be perfectly aware of the issue of arms sales. His failure to directly respond to that issue should have meant a tacit acquiescence of the U.S. demand. Nonetheless, Deng agreed to normalization on January 1, 1979 and accepted Carter's invitation to visit the United States after normalization.¹¹

Carter, however, felt the necessity to have an explicit Chinese response to the second U.S. demand. At Carter's instruction, Woodcock met Deng on December 15 to re-address the issue of arms sales. "Deng was outraged," historian Robert S. Ross writes, "at being forced to

⁹ Ibid., 135.

¹⁰ Ibid., 136.

¹¹ Ibid., 137. The announcement was made at 9pm on December 15 in American Eastern Time, and 10am on December 16 in Beijing Time.

respond to what he saw as a humiliating demand.” During that meeting, Deng asserted that China would never agree to U.S. arms sales to Taiwan. This fundamental difference, however, did not prevent Deng from going along with Carter to make the normalization announcement the next day.¹²

China’s Great Leap Outward

It was a difficult decision for China to normalize relations with the United States when the latter insisted on post-normalization arms sales to Taiwan. The Soviet factor and its economic concerns, however, compelled China to make that concession on Taiwan and complete normalization with the United States. Strategically, the most alarming development for China was Moscow’s expansion into Indo-China. The flirtation between Moscow and Hanoi climaxed in a Treaty of Friendship and Cooperation signed in early November 1978. Now Moscow was able to threaten both China’s southern and northern borders. As historian Ross comments, “China was experiencing the greatest Soviet threat since the 1969 Sino-Soviet border clashes, and it needed a strong United States to offset Soviet power.”¹³

Economically, in 1978, China regained the vigor to pursue technological imports. It was called the “Great Leap Outward.” In the spring of that year, the State Council approved an eight year-plan to import whole plants of total \$18 billion-\$20 billion. By the fall, it had increased the budget for that plan to \$80 billion. Throughout 1978, China signed contracts for twenty-two large-scale projects of total \$7.8 billion, which was more than the sum total of its whole plant imports from 1950 to 1977.¹⁴ In the economic arena, the post-Mao leadership held the consensus

¹² Ibid., 138.

¹³ Ibid., 126.

¹⁴ Wu, *ZhongHua Renmin Guoheguo Jingji Shi*, 775-776; Xiao, “How Did China Open Its Door to the Outside World: The Decision-Making Process Leading up to China’s Opening Era,” Chen Donglin, “Ershi Shiji 50-70 niandai Zhongguo de duiwai Jingji yinjin” (Chinese imports during the 1950s to 1970s), *Shanghai Xingzheng Xueyuan Bao*, 2004, n.6; Chen, *Guo Shi Yi Shu*, 95-97; Zidng, *Li Qiang Zhuan*, 441.

that an open-door policy was necessary for China to carry out its modernization plans. Without a normal relationship with the United States, however, the open-door policy would be handicapped.

Most importantly, unlike the transient shopping spree of 1972-3, the “Great Leap Outward” of 1978 was bound to become a permanent national policy free of ideological constraints. Given the economic conditions in China in 1978, the eight-year import plan was unrealistic and the spending of 1978 was excessive. In the next three years, China had to readjust its plan and suspend many projects.¹⁵ Yet in 1978, the post-Mao leadership nevertheless endorsed the idea that China could and should borrow from abroad to sustain its technological imports. “Absorbing foreign funds” became a twin policy of the technological import expansion. Thus, a new broadly-defined and enduring open-door policy emerged out of the “Great Leap Outward.”¹⁶

The toughest challenge for the Chinese reformers in 1978 was to justify the new open-door policy on the theoretical front. Specifically, it needed to sort out the relationship between China’s modernization goals and Mao’s continuous revolution. After many debates, by the end of 1978, the leadership had finally formed the consensus that, in practice and in principle, China must choose economic development over “continuous revolution.” As Beijing raised economic development to the very top of its priorities, it became more willing to make concessions to the United States for the sake of normalization. To carry out its modernization plans, China needed long-term Western assistance as well as a stable international environment. For China, a normal relationship with the United States would be critical to achieve both of them.

¹⁵ See Zhao, *Prisoner of the State*, 95-100.

¹⁶ Xiao, “How Did China Open Its Door to the Outside World: The Decision-Making Process Leading up to China’s Opening Era,” Chen, “Ershi Shiji 50-70 niandai Zhongguo de duiwai Jingji yinjin”

It was not just a coincidence that breakthroughs took place simultaneously in Sino-American relations, Chinese foreign trade policy, and its great theoretical debate. On December 15, 1978, Deng and Woodcock reached the final agreement on normalization. On the same day, Chinese Foreign Trade Minister Li Qiang announced in Hong Kong that Beijing would no longer prohibit foreign government loans and foreign investments. He explained: “In order to realize the four modernizations, throughout 1985, [we] will need billions of foreign loans. Our policy is to accept government-to-government loans....Basically, [we now] accept all customary practices in international trade.”¹⁷ Li’s announcement was the last strike on Mao’s decree of “no foreign debts.” So far, China had removed all its self-imposed constraints on its import capacity.

On the same day, the Central Committee of the CCP concluded a thirty six-day workshop that unified the Party leaders behind Deng’s pragmatism. In May 1978, the Chinese people had begun a great theoretical debate on the question of whether the criterion of truth should be Mao Zedong’s words or practice. The stake of that debate was no less than China’s future. If Mao were unerring, China must carry on his “continuous revolution” and submit economic interests to ideological politics. If “practice were the sole criterion for testing truth,” the Chinese people would be entitled to break away from Mao’s legacy and pursue their economic interests freely. The Central Committee workshop decisively ended the debate by agreeing that “practice were the sole criterion for testing truth.” At the end of the workshop, Huang Guofeng admitted that he made a mistake to uphold the two-whatever policy. Deng gave a speech entitled “Emancipate the

¹⁷ Donglian Xiao, “How Did China Open its Door to the Outside World: The Decision-making Process Leading up to China’s Opening Era.” (Presented to the international conference entitled Transforming the Cold War: China and the Changing World, 1960s-1980s, December 19-21, 2006, Shanghai). Unpublished. See also, Chen “Ershi Shiji 50-70 niandai Zhongguo de duiwai Jingji yinjin.”

Mind, Seek Truth from Facts, United and Look Forward,” which became the new political slogan in China.¹⁸

Resolution of that theoretical debate paved the way for Deng and his allies to turn China’s tacit opening and piecemeal reforms into a fundamental national policy. Between December 18 and 25, 1978, the CCP held the Third Plenum of the Eleventh Central Committee. It passed a resolution to end “the large-scale turbulent class struggles of a mass character” and “shift the emphasis of [the] Party work...to socialist modernization.” It called on all Chinese to “work with one heart and one mind...[to] carry out the new Long March to make a modern, powerful socialist country before the end of the this century.”¹⁹ So far, both domestically and internationally, the Chinese reformers had made proper preparations for the new open-door policy to last.

Deng Xiaoping’s Visit to the United States

With open-door becoming a basic national policy, China eagerly sought to normalize economic relations with the United States. Twenty-eight days after political normalization, Deng Xiaoping arrived in the United States and set in motion a process that would climax in the conclusion of a bilateral trade agreement and the mutual granting of MFN status. Between January 28 and February 5, 1979, Deng toured Washington, Atlanta, Houston and Seattle. This visit was the PRC’s first top-level official visit to the United States.

Deng’s visit carried both strategic and economic missions. On the strategic front, he informed President Carter that China would soon attack Vietnam to avenge the Vietnamese invasion of Cambodia on December 25, 1978. On the economic front, he told the American

¹⁸ See Yu Guangyuan, 1978: *Wo qinli de naci Lishi Da ZhuanZhe: Shiyi jie SanZhong Quanhui de Taiqianmuhou* (1978: the Historic Turn that I witnessed: The Prelude and the Course of the The Third Plenum of the 11th Central Committee) (Beijing: Central Compilation & Translation Press), 6-14, 112-125, 168-173.

¹⁹ Ibid. The quote is from the “Communiqué of the Third Plenary Session of the 11th Central Committee of the Communist Party of China,” *Beijing Review*, December 29, 1978, 10-11.

people from both the public and private sectors that China desired to expand trade with the United States. He earnestly admitted to them that China had a lot to learn from the United States.²⁰ In Washington, the two sides signed a series of agreements on scientific and cultural exchange and cooperation. On February 2, the two sides released a joint communiqué on Deng's visit, in which they pledged to also "conclude trade, aviation and shipping agreements."²¹

Deng openly asked President Carter and U.S. congressmen for MFN treatment. When Carter raised the Jackson-Vanik requirement of free emigration, Deng replied: "If you want me to release 10 million Chinese to come to the United States, I'd be glad to do so."²² He also gave a personal assurance to Senator Jackson by saying, "Senator, I'll have a million Chinese in Seattle on Monday morning."²³ Therefore, the Jackson-Vanik Amendment did not become an issue in Sino-American negotiations for a bilateral trade agreement, which began soon after Deng's visit.

Deng was obviously preoccupied with China's modernization plans and demonstrated a keen interest in American technology. He firmly believed that the import of the most advanced technology would save China time and resources on its march to modernization. Therefore, during his visit, he told U.S. cabinet officials: "We want your most up-to-date technology, not even that of the early 1970s, do you understand?"²⁴ As a matter of fact, the second-ranking official in Deng's delegation was Fang Yi, Vice Premier in charge of science and technology. Besides several officials from the Ministry of Foreign Affairs and one from the Ministry of Public Security, the only other minister-level official in the delegation was Yang Chen, Deputy

²⁰ Huang Hua, *Qinli yu Jianwen*, 251-256; "How Mr. Deng Won Washington," *The Economist*, February 3, 1979.

²¹ *Ibid.*; "Text of Joint Press Communiqué on Visit by Teng," *New York Times*, February 2, 1979.

²² Carter, *Keeping Faith*, 213. See also, Mann, *About Face*, 107.

²³ "The Soviet Connection," *The China Business Review* 6, no.4 (1979): 29-30.

²⁴ Mann, *About Face*, 108. Mann quoted it from a CIA study entitled "US-PRC Political Negotiations, 1967-84, An Annotated Chronology," which was released to Mann under Freedom of Information Act. See Mann, *About Face*, 385, endnote 28.

Department Director from the Ministry of Foreign Trade. Yang's previous position was Deputy General Manager of TECHIMPORT, which oversaw the importation of whole plants.²⁵

Besides the constitution of the Deng-led delegation, Deng's itinerary also indicated that this visit was intended to be a technological investigation tour. At Deng's request, the American hosts arranged for him to visit factories and sites that represented American industrial and technological achievements. In Atlanta, he visited a Ford assembly plant. In Houston, he inspected the oil drill bits of the Hughes Tool Company and took a simulated spaceship ride at the Johnson Space Center. In Seattle, he inspected the Boeing 747 aircraft that were being assembled for the PRC. Vice Premier Fang Yi made a side trip to Los Angeles, where he visited a McDonnell Douglas plant and Disneyland.²⁶

Deng's visit was an immediate hit with the media. It effectively conveyed the message that China had ended its self-imposed isolation and now set out to join the world. Seven years after Nixon's first visit to China, Deng appeared in the United States listening to country pop sung by John Denver at the Kennedy Center and tasting barbecue in a Texan Rodeo.²⁷ One of the most powerful images was Deng in a ten-gallon cowboy hat, donned at a Texan Rodeo as he went around the arena in a stagecoach to charm the American crowd.²⁸

It is worth noting that in 1973, the owner of the Mayflower Hotel in Washington, where the PRC Liaison Office was temporarily located, also presented cowboy hats to the Chinese officers as a gift. Han Xu, deputy head of the Liaison Office, donned the hat as a friendly gesture. He later received harsh criticism from the radicals who accused him of showing signs of

²⁵ Brief biographies of the members of the Chinese delegation led by Deng Xiaoping are found in White House Central File, Box 17, CO 34-2 1/1/79-1/17/79, Jimmy Carter Library, Atlanta, Georgia.

²⁶ "Welcome Deng Xiaoping," *The China Business Review* 6, no. 1 (1979): 9-12.

²⁷ "Teng's Great Leap Outward."

²⁸ *Ibid.*, 574-5; Huang Hua, *Qin Li yu Jian Wen*, 255; Joseph Lelyveld, "Barbecue, Bulls and Stagecoach Help Teng Get Flavor of Texas," *New York Times*, February 4, 1979.

weakness to Western influence and embarrassing his revolutionary country.²⁹ The contrast of the two stories revealed the dramatic change of the Chinese political atmosphere at home.

The day after the rodeo event, Deng told a Houston audience that China would need billions of imports to carry out its modernization plans and expressed highly optimistic views on the prospect of Sino-American trade. China hoped that its oil exports would help pay for its technological imports. To increase its oil output, it counted on compensatory trade. At the time of Deng's visit, at least six U.S. oil companies were negotiating with China for joint offshore exploration. China would repay the U.S. assistance with oil. Deng indicated to the Texans that those negotiations were making progress.³⁰

In response to American doubts about the stability of the new open-door policy, Fang Yi assured his hosts that China would not return to self-isolation. He said: "It is not possible for any country to isolate itself from the world." He asserted that learning from others did not contradict the principle of self-reliance. He also stressed that China was not afraid of the side effects that increased Western contacts might bring to the Chinese society. "We are internationalists," declared Fang.³¹ It is worth noting that around that time China also began to open its door to American consumer goods. On December 13, 1978, for example, the Coca-Cola company obtained its first contract with China since 1949.³²

²⁹ Fan, *Jiangjun, Waijiaojia, Yishujia—Huang Zhen Zhuan*, 574.

³⁰ Fox Butterfield, "Teng Speaks of Plans For Imports in Billions," *New York Times*, February 4, 1979; *Xinhua Yuebao*, 1979, n. 2; Zi Ding, *Li Qiang Zhuan*, 331.

³¹ Orville Schell, "Peking Official Confident on Modernization," *New York Times*, February 5, 1979.

³² *Ibid.*, 320-330.

Settling the Claims Issue

Deng's visit set the mood for a rapid economic normalization of Sino-American relations. The first step was to settle their monetary claims against each other. The Chinese were anxious. They publicly called the claims issue "a simple matter" and indicated that a settlement was on the way. As in 1973, Chinese desire for MFN treatment was an important incentive. Moreover, this time China was concerned with its credibility in terms of protecting foreign investments in China. When the issue was in the process of being settled, they assured American investors that Chinese claims against the United States would not subject new American property in China to attachment.³³

In late February and early March, Secretary of Treasury Michael Blumenthal visited Beijing. During his visit, the two sides reached an agreement on a cash settlement of the claims issue. According to that agreement, China would pay the U. S. government \$80.5 million in cash over six years to liquidate U.S. private claims against China. As soon as China made the first payment on October 1, 1979, the U.S. government would unblock the Chinese assets, which were also worth \$80.5 million.³⁴

Blumenthal failed to persuade the Chinese to sign the agreement before his departure. When he was in Beijing, the U.S. Congress was debating the Taiwan Relations Act. Congress passed the act in March and President Carter signed it in April. Predictably, the Chinese government protested that the act was a betrayal of the Sino-American normalization

³³ Bill Armbruster, Nicholas Ludlow, Jim Stepanek, and Edith Terry, "An A-Z Guide to the Economic Consequences of Normalization," *The China Business Review* 6, no. 1 (1979): 49-64.

³⁴ Hobart Rowen, "Blumenthal Tell Talks in Peking Seen Going Smoothly," "China to Pay \$80 Million on Claims," *The Washington Post*, February 27, March 2, 1979. The total value of U.S. private claims against China was \$197 million.

agreement.³⁵ That circumstance might have prevented Chinese officials from finalizing the claims agreement with the United States.

Moreover, the Chinese tried to persuade the U.S. government to make an official commitment to help them collect their blocked assets. This cash settlement did not oblige the U.S. government to transfer the Chinese frozen assets in the United States to the Chinese government. In fact, after the unblocking, these assets would “be thrown up for grabs” by claimants both in and outside the PRC. And the Chinese government would be on its own to fight with competitive claimants and collect these assets. It was estimated that, at most, the PRC would be able to claim \$30 million.³⁶

Before claiming their blocked assets in the United States, the Chinese had to locate them by themselves. The Beijing government had lost track of many of these assets and counted on U.S. records to locate them. However, U.S. law did not require the holders of the Chinese blocked assets to disclose the concerned information to the Chinese government. Without the permission of those holders, the U.S. Department of Treasury was also not supposed to provide the Chinese government with the concerned information.³⁷

The Chinese negotiators foresaw the difficulties that Beijing would encounter in recovering the Chinese blocked assets in the United States. Therefore, they wanted the U.S. government to make an official commitment in the claims agreement to help Beijing locate and collect these assets. However, the American negotiators refused to make that commitment. The Chinese negotiations thus delayed signing the agreement.

³⁵ Ross, *Negotiating Cooperation*, 141-144.

³⁶ “Claims Settlement: Surprises Ahead?” *China Business Review* 6, no. 2 (1979): 45-46; “Claims-Assets Settlement Still Unsettled,” *The China Business Review* 6, no. 5 (1979): 22; Barnett, *China’s Economy in Global Perspective*, 520.

³⁷ *Ibid.*, Jay Mathews, “Peking, U.S. Sign Agreement on Assets,” *The Washington Post*, May 17, 1979.

Deng Xiaoping turned out to be more flexible than the Chinese officials at the negotiating table. On May 10, visiting Secretary of Commerce Juanita Kreps mentioned to Deng that the two sides had not yet finalized their agreement on the claims issue. Deng was surprised, saying, “I thought this issue had been settled.” Deng explained that the Chinese negotiators, who were not used to the numerous and complex laws of the United States, were probably afraid of making mistakes. The very next morning Minister Li Qiang signed the claims agreement with Secretary Kreps.³⁸

The final agreement only obliged the U.S. government to help China recover its blocked assets in an unofficial way. Specifically, it required that, prior to unblocking, the U.S. government should “notify the holders...that the PRC requested that [the concerned] assets not be transferred or withdrawn without [its] consent.”³⁹ On October 1, 1979, China made the down payment of \$30 million to the U.S. government. Not until January 31, 1980, however, did the U.S. government unblock the Chinese assets. The delay was probably to give China more time to track down the concerned assets and prepare for the foreseeable litigations against other claimants.

This cash settlement was less favorable to China than the package settlement of 1973 reached by Kissinger and Zhou Enlai. According to the 1973 agreement, the U.S. government would be responsible for collecting the Chinese frozen assets in the United States and using them to compensate the U.S. private claimants against the PRC. In addition, the Chinese government would contribute \$17 million cash to the U.S. government for the money that it had withdrawn from its dollar accounts in the third countries that the United States had also blocked. According

³⁸ Ibid., Oksenberg, “The Dynamics of Sino-American Relations,” 59; Zi Ding, *Li Qiang Zhuan*, 332-333.

³⁹ “Agreement Between the Government of the U.S. of America and the Government of the People’s Republic of China Concerning the Settlement of Claims,” *U.S.-China Commercial Relations: A Compilation of Basic Documents*, (Washington D.C.: U.S. Department of Commerce, 1982), 45-46.

to the final agreement of 1979, although the United States forewent that \$17 million, it transferred the responsibility of collecting the Chinese blocked assets in the United States to the Chinese government. As a result, China would have to go to U.S. courts to fight for many of these assets and would not be able to recover all of them. It was estimated that China would have to pay \$50 million or so out of its own budget to the U.S. government to liquidate the U.S. claims against the PRC.⁴⁰

China accepted this less favorable settlement because the circumstances had changed. Not only had China normalized relations with the United States, but it also had begun to attach great importance to economic issues. Only after resolving the claims issue could it move forward to complete the MFN negotiations with the U.S. government and attract U.S. companies to come to China to invest.

Negotiating a Trade Agreement

The main purpose of Secretary Kreps's visit to Beijing in early May 1979 was to negotiate a bilateral trade agreement that included a mutual granting of MFN status. Before Kreps's arrival, the United States had presented a lengthy draft of a trade agreement to China, which China had accepted.⁴¹ After her arrival, however, she presented a revised draft and demanded more Chinese concessions in areas such as patent protection. Predictably, the Chinese negotiators were resistant to the revisions. On May 7, Kreps told American reporters: "There were so many details that have to be included....The Chinese are frankly puzzled by the need for

⁴⁰ "Claims Settlement: Surprises Ahead?" *China Business Review* 6, no. 2 (1979): 45-46; "Claims-Assets Settlement Still Unsettled," *The China Business Review* 6, no. 5 (1979): 22; Barnett, *China's Economy in Global Perspective*, 520.

⁴¹ Barnett, *China's Economy in Global Perspectives*, 523.

such a complicated agreement.”⁴² The American visitors seem to have prepared themselves to leave China without an agreement.

Once again Deng’s intervention speeded up the process. When he met Kreps on the morning of May 10, he indicated that not only should the claims agreement be signed, but also that a trade agreement should be initialed. Referring to the complexity of U.S. laws, he told Kreps that, in order to attract foreign investment, China was in the process of drafting legislation on patent protection and foreign investors’ rights.⁴³

After the meeting with Kreps, Deng told American reporters that he believed that the two countries would be able to initial a trade agreement before Kreps left China. Reportedly, his “blunt” prediction “startled” some of the American negotiators who were having a hard time persuading the Chinese negotiators to accept the revised draft of the trade agreement.⁴⁴ On the same day, after her meeting with Deng, Kreps signed an agreement on trade exhibits with Li Qiang. At the signing ceremony, Li announced that the Chinese aimed to initial a trade agreement while Kreps was still in China.⁴⁵

On May 11, Kreps left Beijing to visit some other Chinese cities. The American negotiating team stayed in Beijing to continue the negotiations on the trade agreement. On May 14, hours before Kreps’ scheduled flight to Hong Kong, the Chinese negotiators in Beijing accepted the revised draft of the trade agreement. Shortly afterwards, Kreps and Li Qiang initialed the agreement in Guangzhou and Beijing. Kreps believed that Deng’s publicized prediction probably pressed the Chinese negotiators to accept the American terms.⁴⁶

⁴² Jay Mathews, “Kreps Sees Possible Delay in U.S.-China Trade Pact,” *The Washington Post*, May 8, 1979.

⁴³ Zi Ding, *Li Qiang Zhuan*, 333.

⁴⁴ Mathews, “Peking, U.S. Sign Agreement on Assets.”

⁴⁵ Zi Ding, *Li Qiang Zhuan*, 334.

⁴⁶ *Ibid.*, Mathews, “China and U.S. Initial Accord Aiding Trade,” *The Washington Post*, May 15, 1979.

The Final Run to MFN

On July 7, 1979, Li Qiang and Ambassador Woodcock officially signed the trade agreement. On October 23, President Carter submitted the agreement to Congress, which approved it on January 24, 1980. The delay in finalizing the agreement and its submission occurred because the U.S. government had to overcome two major obstacles to offer MFN treatment to China. The first was its even-handed policy towards China and the Soviet Union. According to *China Business Review*, Carter had hoped “to submit to Congress at one time a package combining trade agreements for both the PRC and the USSR.” Unlike the PRC, however, the Soviet Union refused to give Carter even an indirect assurance on free emigration. This situation left Carter with two choices: to abandon the even-handed policy and only offer China MFN treatment or to maintain the even-handed policy by delaying the offer to China until the U.S. government was ready to make the same offer to the USSR. National Security Advisor Brzezinski favored the first choice, while Secretary of State Vance insisted on the second.⁴⁷

Carter finally sided with Brzezinski, which allowed the United States to finalize the trade agreement with China in July. In late August 1979, Vice President Walter Mondale visited Beijing and indicated that on the trade issue, the even-handed policy was over. In a speech at Beijing University, Mondale announced: “Before the end of the year, President Carter will submit for the approval of the U.S. Congress the trade agreement we reached with you. This agreement will extend most-favored-nation treatment to China. And its submission is not linked to any other issue.” In the same speech, Mondale also promised that the United States would

⁴⁷ “The Soviet Connection,” *The China Business Review*, v. 6, n. 4 (July-August 1979), 29-30; Mann, *About Face*, 107; Brzezinski, *Power and Principle*, 415-419.

offer China \$2 million of Export-Import Bank credits after Congress approved the trade agreement.⁴⁸

The second, more formidable obstacle was the U.S. textile lobby. Cotton textiles had been the number one Chinese export to the United States since Sino-American trade had resumed in 1971. The extension of MFN treatment would inevitably further increase Chinese textile exports to the United States. To protect their domestic market, the U.S. textile manufacturers demanded their government to reach a textile agreement with China before offering China MFN treatment.⁴⁹

Around the time of Sino-American normalization, the Carter administration also worked on a new liberal international trade pact that would further reduce international tariffs. To win the support of the textile lobby for the new pact, in January 1979, Robert S. Strauss, Special Trade Representative, reached an agreement with the domestic textile industry, in which the government promised to control textile imports from developing countries. In late January 1979, the United States and China began to negotiate a textile agreement. By the time of the initialing of the Sino-American trade agreement, the two countries had held two rounds of unsuccessful textile talks.⁵⁰

In late May 1979, less than two weeks after the initialing of the trade agreement, Strauss arrived in Beijing for a third round of textile negotiations. The Americans warned the Chinese that they would not submit the trade agreement to Congress until they obtained the textile concessions from China. Those concessions, however, contradicted China's recent economic

⁴⁸ "Vice President: Visit to East Asia," *Department of State Bulletin*, October 1978 (Washington: Office of Public Communication), 10-13.

⁴⁹ Ross, *Negotiating Cooperation*, 153-157; Barnett, *China's Economy in Global Perspective*, 528; Helen, Dewar, "Strauss, Textiles Reach Agreement," *The Washington Post*, January 9, 1979; "The Way Ahead: MFN Status for China This Year," *The China Business Review*, v. 6, n. 2 (March-April 1979), 6-7; Leonard Silk, "Strain Evident, But Mrs. Kreps Achieve Goal," *New York Times*, May 15, 1979; Clyde H. Farnsworth, "U.S. Prefers Textile Pact with China," *New York Times*, May 30, 1979.

⁵⁰ *Ibid.*

plans. China's unrealistic expansion of technological imports in 1978 had exposed its foreign exchange scarcity. The Chinese now counted on an expansion of their textile exports to relieve their financial stress. Therefore, they refused to accept American terms on shirts, trousers, jeans and work gloves. The third round of textile negotiations broke down once again.⁵¹

On May 30, 1979, the U.S. government took unilateral actions to impose quotas on five categories of Chinese textile exports.⁵² The Chinese press protested these unilateral actions. The *Beijing Review* pointed out that Chinese textile exports accounted for only 1.3 percent of U.S. total textile imports. Moreover, China imported U.S. cotton and artificial fibers that were worth much more than Chinese textile exports to the United States. In the meantime, however, this article stated that China understood the American intention to protect its domestic market.⁵³

The U.S. government continued to negotiate with China, hoping to finalize a textile agreement before it submitted the trade agreement to Congress. China was disappointed by Carter's slow movement on the trade agreement. To console the Chinese, in early August, the White House once considered unblocking Chinese assets immediately. The Department of Treasury opposed that idea for the possible complications. For one thing, the White House would have to explain to Congress about the early unblocking. Most importantly, China seemed to be unprepared to locate and collect these assets and an early unblocking could only end up hurting Chinese interests.⁵⁴ On the textile issue, the Chinese negotiators were unwilling to compromise.

⁵¹ Ibid; *U.S.-China Commercial Relations*, 47; "Extending of Nondiscriminatory Treatment to Products of the People's Republic of China, 96-549," *Senate Reports*, v. 1, nos. 548-553, 96th Congress, 2nd Session, 1980; "Sino-American Negotiation on Textiles," *Beijing Review*, June 8, 1979, 8.

⁵² Farnsworth, "U.S. Imposes Quotas on Chinese Textiles," *New York Times*, June 1, 1979. The five categories were cotton gloves, women's, girls', and infants' woven cotton shirts and blouses, men's and boys' cotton shirts, cotton trousers, and synthetic fiber sweaters.

⁵³ "Sino-American Negotiation on Textiles," *Beijing Review*, June 8, 1979, 8.

⁵⁴ Memorandum from Assistant Secretary of Treasury C. Fred Bergsten to Secretary of Treasury G. William Miller, 22 August 1979, National Security Affairs—Brzezinski Materials, Country File, China (PRC), Box 9, China (PRC) 1-3/79, Jimmy Carter Library, Atlanta, Georgia.

Between early June and late October, two more rounds of talks ended in stalemate. In fact, the two sides did not sign a textile agreement until September 1980.⁵⁵

In late October, Minister Li Qiang set out for the United States. One of his missions was to press President Carter to submit the trade agreement to Congress and lobby for its approval before the end of the year.⁵⁶ On October 23, 1979, the day of Li's arrival, Carter submitted the trade agreement to Congress. A week later, the United States imposed quotas on two additional categories of Chinese textiles.⁵⁷ These unilateral actions helped secure congressional approval for the Sino-American trade agreement. In November 1979, Brzezinski reported: "Objections from the textile lobby failed to materialize due to our unilateral actions in this area."⁵⁸ During the congressional debate, few congressmen showed concern with the human rights conditions in China.⁵⁹ Human rights did not become a major issue in Sino-American relations until 1989.

The passage of the trade agreement was "the most important step" in the process of Sino-American economic normalization. As *The China Business Review* commented, "if 1979 was the year of diplomatic normalization, 1980 will be the year of economic normalization." By the end of 1980, in addition to the trade agreement, the two countries had reached agreements on civil aviation, shipping, consular convention, textile trade, and grain trade. They also established a Joint Economic Committee co-chaired by Vice Premier Bo Yibo and Treasury Secretary G. William Miller. These agreements removed most of the institutional impediments that had

⁵⁵ *U.S.-China Commercial Relations*, 48.

⁵⁶ Zi Ding, *Li Qiang Zhuan*, 340.

⁵⁷ They were women's, girls', and infants' knit cotton shirts and blouses, and coats of man-made fibers. See report of the Senate Committee on Finance, "Extension of Nondiscriminatory Treatment to Products of the People's Republic of China," *Senate Reports, v. 1, Miscellaneous Reports*, 96 the Congress, 2nd Session, 1980.

⁵⁸ Memorandum from Brzezinski to the Vice President, 30 November 1979, National Security Affairs—Brzezinski Materials, Country File, China (PRC), Box 9, China (PRC)10/79-2/80, Jimmy Carter Library, Atlanta, Georgia.

⁵⁹ See Mann, *About Face*, 108.

hampered Sino-American trade since it resumed in 1971.⁶⁰ In the years to come, Sino-American trade would explode and become a predominant factor in shaping their bilateral relations and the global economy.

From Self-Reliance to Interdependence

China's trade agreement with the United States marked the beginning of its integration into the free market world system. It accepted American terms on trade practices, including price-setting, quality control, delivery, payment arrangements, contract language, arbitration of disputes, and protection of patents, trademarks and copyrights. Most importantly, its intention was not only to increase the trade volume in commodities, but also open the door to American credits and investment. In fact, a day after the signing of the trade agreement, China published its first joint venture legislation. Three days after the signing, Chinese Minister of Finance Zhang Jingfu arrived in the United States to discuss U.S. Export and Import Bank credits for China. In every American city that he visited, he spread the word that China now welcomed various forms of international economic cooperation from compensatory trade and processing trade to joint ventures.⁶¹

This pursuit of American capital revealed that China's opening, begun in the early 1970s, had gone through a qualitative change. Initially, Beijing only opened itself to American goods that it desperately needed. It made lavish purchases of American grain and advanced technology. However, it worried about the impact of the American contact on the mind of the Chinese people. During the Cultural Revolution, a routine step to "make the foreign things serve China" was to de-Westernize them by criticizing them. The Chinese government also vigilantly watched

⁶⁰ Ibid.; "The Way Ahead: The signing of four long-awaited agreements," *The China Business Review* 7, no. 5 (1980), 6-7; "U.S.-China Grain Agreement," *The China Business Review* 7, no. 6 (1980), 28. See also, Harding, *A Fragile Relationship*, 96.

⁶¹ "MFN and Exim Bank Credits by Year-End?" *The China Business Review* 6, no. 4 (1979), 28-29; "Minister of Finance Discusses Cooperation," *ibid.* 6, no. 5 (1979), 24-25.

those who visited the United States for technical training or technological investigation. After those people returned home, they often had to write self-criticism reports to “decontaminate” themselves from the Western influence.⁶²

While China was buying American aircraft and fertilizer plants, it also vocally rejected the world economic system based on free trade and the international division of labor. On the theoretical front, China echoed the “dependence theory” that Andre Gunder Frank had put forth in the late 1960s as a critique of modernization theory. According to the modernization theory that emerged in the United States in the 1950s, the developing countries could only achieve modernization by participating in the free market world economy. The Maoists asserted that free trade and division of labor only led to exploitation and inequality. They advocated “self-reliance” and “all-round development” as a developmental strategy.⁶³

On July 14, 1972, for example, the *Beijing Review* commented on the true intention of those who advocated on “international division of labor”:

We are resolutely opposed to those countries which, in the name of ... ‘international division of labor’, make (other) countries develop their economies in a lop-sided way and reduce (them) to a dependent and subordinate position serving the economies of their own countries.⁶⁴

In April 1976, the *Hong Qi* pointed out the danger of economic interdependence:

The phenomenon of ...economic interdependence is determined by...the world capitalist economic system. Precisely because of this, once an economic crisis occurs in one country, like a plague it quickly spreads...Those countries which depend on others...once a storm blows they will be beset with this and that crisis and practically cannot master their own destinies.⁶⁵

⁶² Chen Donglin, “Ershi Shiji 50-70 niandai Zhongguo de duiwai Jingji yinjin” (Chinese imports during the 1950s to 1970s), *Shanghai Xingzheng Xueyuan Bao*, 2004, n.6.

⁶³ Nils Gilman, *Mandarins of the Future: Modernization Theory in Cold War America* (Baltimore: The Johns Hopkins University Press, 2003), 234-240; Friedrich W. Y. Wu, “From Self-Reliance to Interdependence? Developmental Strategy and Foreign Economic Policy in Post-Mao China,” *Modern China*, 7:4 (Oct 1981), 445-482; Yu, “Socialist Development of Self-Reliance within the Capitalist World Economy, the Chinese View in the Post-Mao Era” *The End of an Isolation: China After Mao*, ed. Harish Kapur, 1985, 234-263.

⁶⁴ Quoted from *ibid.*

⁶⁵ *Ibid.*

During those years, China defined “self-reliance” by the absence of external and internal debts. To maintain its independence, it insisted on trade in cash and a balance of payment. It rejected any long-term financial arrangements that could have assisted its import plans.

By 1979, however, China not only called for technological imports, but also foreign loans and direct foreign investments. It redefined “self-reliance” as a long-term goal, to which the use of foreign funds did not stand in contradiction. Moreover, China accepted the interdependence theory that linked the process of modernization and the participation of the world economy. In 1980, Deng defined China’s open-door policy by “international cooperation”:

China has now adopted a policy of opening our door to the world, in a spirit of international cooperation.... Our country’s modernization would be impeded if we rejected international cooperation. In no country has the process of modernization occurred in isolation.”⁶⁶

In 1981, Premier Zhao Ziyang explicitly ended “self-reliance” as an economic policy. He stated in the *Report on the Work of the Government* to the Fourth Session of the Fifth National Congress of the PRC:

In economic work, we must abandon once and for all the idea of self-sufficiency.... All ideas and actions based on keeping our door closed to the outside world and sticking to conventions are wrong....⁶⁷

When Nixon reached out his hand to Zhou at the Beijing airport in 1972, China was still an adamant opponent of the American vision of the world economy. Seven years later, it began seeking to become part of that vision. China’s new open-door policy in the spirit of international cooperation would eventually turn China into a most important force in the world economy it had once opposed.

⁶⁶ Ibid.

⁶⁷ Ibid.

From Opening to Reform

China's economic opening preceded its economic reforms. In the early 1970s, its economic opening to the West exposed the contradiction between its two compelling agendas: modernization and revolution. For modernization, China needed to maintain certain contacts with the capitalist world to procure advanced technology. For revolution, China must completely reject that capitalist world system. This contradiction set the stage for China's reforms. To a great extent, the reforms were to resolve that contradiction and perpetuate the opening. In return, the established open-door environment created favorable conditions for more economic reforms to proceed.

The first high point of the PRC opening to the West was between 1972 and 1974. It created a large trade deficit that directly contradicted its revolutionary ideals such as equality and independence. To rectify that problem, China took pains to expand its exports to the capitalist world. The Ministry of Foreign Trade began to allow the market to play a role in Chinese foreign trade. Chinese foreign trade officials were urged to meet the demands of the capitalist market in styles, designs, packaging, labeling, delivery and so forth.

As Chen Yun explained in 1973, it was necessary for China to adopt capitalist practices to trade with the capitalist countries. This argument became a convenient justification for the post-Mao opening and reform. In the summer of 1978, for instance, at a State Council meeting to discuss theoretical problems, Vice Minister of Foreign Trade Yao Yilin supported Chen's argument by quoting Vladimir Ilyich Lenin—"If you live with wolves, you must howl like a wolf."⁶⁸

China's piecemeal reforms in the foreign trade area led to chain reactions on its farms and in its factories. The Chinese foreign trade corporations did not actually produce the export

⁶⁸ Yu, 1978: *Wo qinli de naci Lishi Da ZhuanZhe*, 55.

commodities. They were merely the middlemen between the foreign buyers and the Chinese producers across the country. Therefore, the demands of the capitalist market ultimately affected China's domestic economic policy.

For instance, the autarky of "self-reliance" required Chinese farmers to devote themselves to grain production. The foreign market, however, had great demand for Chinese native produces such as orange and citronella oil. In the late 1960s, the radicals in Guangdong called the production of the citronella oil "pinning China's hope to the hair of women in Paris." They uprooted the lemongrass and forced the farmers to grow grain instead. In the summer of 1974, a foreign trade planning meeting explicitly criticized the radicals for damaging the production of those produces that Chinese foreign trade needed. The effort to expand Chinese exports thus eroded the agricultural policy that overemphasized grain production.⁶⁹

The piecemeal reforms in foreign trade and its associated production areas proved to be incapable of solving the problem of trade deficit. In late 1974 throughout 1976, the revolutionary ideal compelled China to drastically cut back its imports from the capitalist world. With the fall of the Gang of Four, the post-Mao leadership reached a consensus on China's economic opening as defined in 1973. It quickly resumed the import drive and brought it far beyond the 1973 level in just two years.

To preempt the renewed import drive from slipping away, the post-Mao leadership was compelled to go beyond the conventional measures to pay for China's imports. The answer was to make use of foreign funds. By the end of 1978, the post-Mao leadership had made "absorbing foreign funds" a basic element of the new open-door policy. Moreover, it had put forth a new theoretical model to justify the open-door policy "in a spirit of international cooperation." In

⁶⁹ China Ministry of Foreign Trade, "Waimao Guihua Huiyi Jiyao" (Minutes of the Foreign Trade Planning Meeting between June 6 and June 17 1974), 253-2-162, Guangdong Provincial Archives, Guangzhou, China.

essence, China resolved the contradiction between modernization and revolution by abandoning the latter.

At the turn of the 1980s, when the open-door policy was no longer in danger, the meaning of reform still waited to be defined. The elder economic planners such as Chen Yun and Li Xiannian insisted in “planned economy as primary, market adjustments as auxiliary.” Junior planner Zhao Ziyang, however, came to the “most profound realization”: “The system [of the planned economy] had to be transformed into a market economy, and the problem of property rights had to be resolved.” While Chen’s idea prevailed on paper for most of the 1980s, in practice, Zhao had Deng’s blessing and steered the reform to the direction of “rejection and correction of the planned economy.”⁷⁰

Zhao confessed that he did not set out to uproot the planned economy from China. As a pragmatist, his thoughts evolved over time. He recalled: “My earliest understanding of how to proceed with reform was shallow and vague. Many of the approaches that I proposed could only ease the symptoms [of economic deficiencies associated with the planned economy].” “Only after a long series of back-and-forth,” did he become a firm believer in the market economy. In 1987, he reinvented the concept of “socialist initial stage” to justify China’s nonconformity to the socialist economic orthodoxy. So far, China’s market reform had passed the point of no return.

China’s opening transformed its economy. Will it eventually bring about political reforms as well? Chinese officials have seemed to be unmoved to Western moral exhortation. However, they could possibly be convinced by more practical economic arguments. The evolution of Zhao’s thoughts on this issue was revealing. When Zhao began to direct economic reform after 1978, he did not pay attention to political reforms. By the mid-1980s, however, he began to see

⁷⁰ Zhao, *Prisoner of the State*, 113, 205.

“a need for political reform from the perspective of economic reform.” “Without political reform,” he explained, “it would have been difficult to sustain economic reform...the forces of reform would find it difficult to reach their full potential...social problems [such as corruption]...would be difficult to address properly.”⁷¹ In fact, in today’s China, this economic argument is still the most powerful argument for political reforms. In the past, China had taken unconventional measures and overcome ideological hurdles to protect opening and advance reform. In the future, it is not impossible to conceive that China would take on the difficult issue of political reform in the same manner in order to preserve the legacy of the opening and reform.

⁷¹ Ibid., 256-257.

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