CHAPTER - IV

BILATERAL TRADE
The bilateral trade constitutes a salient aspect of the Sino-Canadian relations. The grain trade, particularly, has been very important in the economic relations between the two countries. In the 1960s the major share of China's imports from Canada constituted of grain. From 1961 to 1970 the PRC's import of wheat was 97 per cent of the total imports from Canada. The success in selling so much wheat to China drew Canada closer to China. Moreover, the prospects of increased trade in wheat and other resource based commodities stimulated Canadian efforts to grant diplomatic recognition to China in 1970. The total bilateral trade which was $161 million in 1970 soon increased to $309 million in 1972, and further went up to $1.6 billion in 1985.\(^1\) By 1985 both the PRC and Canada were each others fifth largest trading partner. Although over the years the composition of Sino-Canadian trade has shown a healthy change, i.e. decrease in percentage of total wheat imports to the total volume of imports, wheat still represented two-thirds of all China's imports from Canada in 1985.

**CHINESE GRAIN AGRICULTURE**

China is regarded as one of the earliest nations in the world to adopt crop cultivation. The Chinese had started primitive farming in the middle and lower reaches of the Huanghe (Yellow) River as early as the period of the Yangshao Culture, 6,000-7,000 years ago. With the passage of time, new technology has been

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\(^1\) Unless otherwise noted, Canadian dollar (C$) currency has been referred to.
adopted for the development of crop production, although practices of primitive farming still exist to a large extent.

Prior to 1949 due to social upheavals and cruel exploitation of the ruling class China's grain production had stagnated. Since 1949, except the three years from 1959 to 1961, China's grain production had been increasing steadily. The grain output had gone up from 113 million tonnes in 1949 to 379 million tonnes in 1985.² China became the biggest grain producer in the world but for various reasons, it also became the largest importer of grains.

China’s most important agriculture base lies in the East (or South East) which consists of 93 per cent of the total cultivated land and 96 per cent of the population. The South Eastern part of China is semi tropical, and the weather is dominated by monsoons which bring abundant rainfall and high temperatures throughout the long summer. The climate has been conducive for the cultivation of grain crops,³ particularly rice under intensive cropping practices.

The grain crops constitute an overwhelming part of the cultivated land. In 1985 the land under grain crops reached 1632.7 million mu or 75.8 per cent of total sown area.⁴ Although the area under grain crops has been declining over the past years, grain crops are predominant in China's crop cultivation.

² See, TABLE 1.

³ Grain crops in China include rice, wheat, corn, soya beans and tubers.

Since 1949, the output of main grain crops have gone up by a good margin. The total grain output in 1984 was 407.3 million tonnes, an increase of 260 per cent over 1949. During the period 1949 to 1985 the former year had recorded the lowest output of grain crops whereas the year 1984 recorded the maximum output of grain crops. But unfortunately owing to excessive growth in population, the per capita grain output in 1985 was merely 365 Kgs, far below the requisite quantity for developing the economy and improving people's life.

Rice, China's most important grain crop, ranks first in both production and consumption. It accounts for one-third of the total sown area under grain crops, since the early 1960s. In 1985 the area under rice was 481 million mu about 30 per cent of the total sown area of grain crops. Rice is grown "mainly in areas south of the Qinling Mountains and the Huaihe River", i.e. the Southern part of China. The rice output of 1985 was 168.6 million tonnes, accounting for 44.5 per cent of total grain production.

Wheat is the second major grain crop in the PRC. About 90 per cent of it is winter wheat. "Winter wheat grows in Henan, Shandong, Hebei, Anhui, Shanxi, Jiangsu and Sichuan, especially in the first four provinces. Spring wheat is grown mainly in Heilongjiang, Gansu, Inner Mongolia, Xinjiang, Qinghai and Tibet,

5 See, TABLE 1.
6 See, TABLE 2.
7 See, Statistical Year Book of China, n.4.
9 See, TABLE 1.
especially in the first two provinces. Thus China's maximum output of wheat comes primarily from the North China Plain. The total sown area under wheat in 1985 was 438 million mu, which was around 28 per cent of the total area under grain crops and its output in 1985 was 85 million tonnes accounting for 22 per cent of the total grain production.

The other main grain crops in China are corn, soyabean and tubers. The latter is grown widely in China. While potato is considered as a kind of vegetable, sweet potato is considered as grain. For example, during the worst years of Chinese agriculture, from 1959 to 1961, sweet potato served as a major source of food for many Chinese families. The total tuber output in 1985 was 26 million tonnes.

As pointed out earlier, China's grain production maintained a steady growth, recording an increase of almost 335 per cent in the period 1949 to 1985. The increase in grain production, however, has not been noncommittant with the excessive growth of population. Grain output increased by nearly 270 million tonnes from 1949 to 1985, whereas the population increased by around 500 million.

10 China Handbook Editorial Committee, n.8.
11 State Statistical Bureau, China, n.4.
12 See, TABLE I.
13 The reasons for decline in area under grain has been discussed subsequently.
14 In China five tonnes of tubers are equated to one tonne of grain.
15 See, TABLE 1.
the same period.\textsuperscript{16} The result is that the per capita production of grain in China has remained at a comparatively low level. Moreover, the productivity could have been increased at a faster rate, but this too had limitations, particularly due to "China's energy constraints [which] have curtailed both the development of chemical fertilizer production and the mechanization of agriculture."\textsuperscript{17} China's current "four modernizations" programme rightly emphasizes the importance of food supply in the modernization of the economy.

It is to be noted here that since 1978, China's grain production has increased at a much faster rate than before, although the area devoted to grain has actually declined. In 1978, the total output of grain production was 304.8 million tonnes and in 1984 it reached a record of 407.3 million tonnes,\textsuperscript{18} an increase of 33.6 per cent in only six years. There was a dramatic decline in production in 1985 when the total output was only 379.1 million tonnes. Since production peaked in 1984 there was concern both inside and outside China that the impact of the reforms had levelled off.

For more than three decades China's grain sown area had declined constantly. Nevertheless wheat and rice production increased significantly. One of the factors responsible for this

\textsuperscript{16} See, State Statistical Bureau, China, n.4, p.71.

\textsuperscript{17} Karen Minden, The Politics of Cerealism: The Wheat Trade and Canadian-Chinese Relations (Joint Centre for Modern East Asia, University of Toronto-York University, Working Paper Series No.27, April 1983, p.10.

\textsuperscript{18} See, TABLE I.
increase has been the new techniques adapted to the Chinese agriculture. For example, "hybrid rice has contributed substantially to the increase in rice yield".  

The other factors responsible were the Government's policy changes, such as price incentives, the production responsibility system and free markets. The input usage particularly use of fertilizers and irrigation equipments has also played an important role. For example, in 1978 the total consumption of chemical fertilizers was 8.84 million tonnes but since 1979 the consumption rate has increased by a greater extent from 10.86 million tonnes in 1979 to 17.75 million tonnes in 1985.

Grain production had been given first priority in agriculture. Self-sufficiency was of primary importance regardless of economic efficiency and this was enforced by the assigning of sown area to grain crops by the Government. The rigid Government policies had a negative impact on the grain production necessitating major changes in 1978. The main purpose of the new economic reforms was for more balanced growth between capital and consumer goods. Also, the pressure on grain self-sufficiency was eased to some extent and farmers were allowed to reallocate their resources, including land, to more profitable crops. This was the major reason for the sown area under cash crops increasing so rapidly. However, the Government had the obligation to supply the rural people, who were involved mainly in cash crop production, with grain for their food requirements.


20 State Statistical Bureau, China, n.4, p.111.
Even though since 1960 China has been considered as a major grain importer, in the 1950s China was a major grain exporter. During 1950 to 1960 China exported a total amount of 30.5 million metric tonnes (mmt) unprocessed grain, which was 2.77 mmt annually.\(^{21}\) The factors chiefly responsible for these grain exports were the increase in grain production and the Government's need for foreign exchange.\(^ {22}\)

First, grain production in China increased quite rapidly in the initial recovery period of 1949-1952 from the war ravaged economy (Japanese occupation of 1937-1945 and Civil War of 1946-1949). The grain production increased from 113.2 mmt in 1949 to 163.9 mmt in 1952.\(^ {23}\) This represented a 44.8 per cent increase in just three years which was basically the outcome of the increased incentives stimulated by the land reforms of 1950-1952. Prior to the land reforms, less than 10 per cent of the rural population were the owners of more than 70 per cent of the total arable land. The rent they charged was very high, which was about 50 per cent of the total output. By 1952, when almost all the land reforms were implemented, approximately 300 million farmers (more than 60 per cent of the total rural population) received 46.7 million hectares of land (about one-half of the total arable

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\(^{21}\) See, TABLE 4.

\(^{22}\) Carter and Zhong, n.19, p.1.

\(^{23}\) See, TABLE 1.
land) without any payment. This drastic change in the ownership of land gave rise to great incentives to improve farming practices and management, to reclaim land and to increase multiple cropping. As a result grain production reached a new peak of 193.5 mmt. in 1958 without any significant increase in the input of modern farming techniques. Moreover the average per capita output of major agricultural products increased from 209 Kgs. in 1949 to 306 Kgs. in 1957.

The second major factor responsible for the increased grain exports in the 1950s was a large demand by the Chinese Government for foreign exchange to finance industrialization, which was the Government's top priority in the 1950s. It was the first phase of massive injection of foreign technology into the PRC. In the 1950s the Soviet bloc was the main source of equipment. Much of it was delivered as part of an aid programme and China's first Five Year Plan (1953-1957) and was based almost entirely on imported industrial goods. During those years, the Soviet Union supplied US $1.35 billion worth of equipment to China. This was all paid for with agricultural products, minerals and light manufactures. Thus grain was used as foreign exchange earner and its exports were kept at an optimum level as long as possible.


25 See, TABLE 2.

China's nature of grain trade changed drastically in 1961. It no longer remained an exporter of grain. Since 1961 it became a net importer of grain absorbing an average of over 7 million tonnes of grain per year from the international market till 1985. This sharp change of grain trade of China had a significant impact on Sino-Canadian relations because over 45 per cent of the Chinese grain imports were supplied by Canada.

Amongst the several major factors responsible for China's imports of grain, the Great Leap Forward (hereafter GLF), from 1958 to 1960, which precipitated the country into the food crisis, was unquestionably the immediate cause for the huge grain imports in 1961 for the first time. It is only recently that the Chinese authorities have admitted that serious errors during the GLF has been one of the factors that contributed to the grain imports. A comprehensive analysis of the political and social implications of the GLF is beyond the scope of this dissertation. Nevertheless it is necessary to analyse briefly the impact of the movement on China's grain production and consumption.

The long term economic goal of the PRC is to transform an agricultural country into an industrial power. Encouraged by the remarkable success of the First Five Year Plan (1953-57), the Chinese leadership decided to accelerate the process at a great speed by initiating the GLF movement and Peoples' Commune movement in 1958. Ambitious, but unrealistic, targets were set for national economic development, without serious consideration
toward objective laws and the country's capabilities. More investment and manpower were devoted to heavy industry at the expense of agriculture. The industrialization campaign had a tremendous negative impact on the rural sector as the rural labour force migrated to the cities to support capital construction and the steel industry. As a result agriculture was not given due importance and the grain production suffered.

Grain production was further disrupted by the shortcomings of the spreading of the People's Commune movement which was characterized by free allocation of resources and manpower, arbitrary prescribed orders, extreme egalitarianism in distribution, cancellation of private plots and free markets and the exaggeration of production achievements. The inflated claims about grain output made state statistics almost invalid. In 1958, the estimated grain output was between 400 and 500 million tonnes, and some officials were worried about storing all that grain. Actually the output was less than 195 mmt.27 The decline in grain production severely dislocated the state-planned grain consumption system. The growing urban population and the growth of industries demanded more outputs from the agricultural sector and the inflated claims gave the illusion that the Government could procure more grain from the communes. Once the state procurement increased, the communes could do nothing but tighten their own food consumption.

The GLF soon became a "great leap backward" when the country was hit by bad weather for three successive years, from 1959

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27 See, Carter and Zhong, n.19, p.5.
onwards. Grain production fell from 193.5 mmt in 1958 to 165.2 mmt in 1959 and it further declined to 139.4 mmt in 1960 (28 per cent decline). The crops of 1960 and 1961 were so poor that they declined below the level of 1952. As production declined, food supply became crucial. In fact, at the end of 1959, many Chinese industrial cities, such as Shenyang and Dalian, had only food reserves for few days. Radio Beijing announced on 29 December, 1960, that:

"...natural disasters "without parallel in the past century", including drought, floods, typhoon and insect pests, had affected more than half of China's cultivated area during 1960, causing serious damage to agriculture and to heavy and light industry and leading to food shortage throughout the country."

In fact requirements to meet daily necessities were scarce, and almost everything was rationed. People's living standards deteriorated significantly as a result of the economic depression. The situation, particularly in the country-side, was pathetic. For the first time in the PRC's history, famine struck many parts of the country. In the face of stern reality the Chinese Government backtracked from the Leap policy and made the decision of importing grain from Canada.

**Price Differential**

The most striking reason given by the Chinese leaders was that China was exporting rice and importing wheat to take the advantage of high rice prices and low wheat prices in the international market. Chen Ming, the then Director of the Third

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28 ibid.

29 *Keesing's Contemporary Archives* (Bristol), vol.13, 4-11 February 1961, p.17912.
Bureau of Beijing's Ministry of Foreign Trade stated in 1964, "If we import wheat, we can export soyabean and rice and other processed foodgrain - and the price for rice and soyabean is higher than for wheat. This is a good means, in other words, of making good money". A comparison of unit value (i.e. the value of input or export divided by quantity of input or export) shows that rice usually costs twice as much as wheat. This is probably because rice is a more labour-intensive crop which does not easily lend itself to mechanization while wheat is generally suited to large scale mechanized farming. Moreover, the unit yield of rice in China has always been higher than that of wheat, because rice is grown on the fertile land of the South and South Western provinces with two or three crops each year while wheat is found in the less productive regions of the North and Northeast with fewer crops annually. A United States Department of Agriculture publication in 1965 had also stated, "Selling rice and buying wheat makes sense. The Chinese sell their milled rice for about [US] $120 a metric ton and buy wheat for about [US] $70 a ton. The caloric values are close to 363 calories per hundred grams for milled rice as against 330 calories for whole grain wheat".

The Chinese leaders had justified their wheat import by

30 Dick Wilson, "Interview with Chen Ming", Far Eastern Economic Review (Hong Kong), vol.44, no.8, 21 May 1964, p.367.


32 See, State Statistical Bureau, China, n.4, p.148.

projecting the 'price differential' argument. However, this claim was only partially true as sales of rice during the 1960s had averaged around 800,000 tonnes per year, or only about 14 per cent of average annual grain imports. The earnings from export of rice were far from sufficient to pay for wheat imports. According to calculations made by Feng Hwa Mah, China's rice-wheat trade produced a net outflow of about US $200 million to US $300 million annually during the years 1961 to 1967. Thus the Chinese claimed that by importing wheat and exporting rice, soyabeans and other grains they could earn more foreign exchange proved less and less true.

In the 1950s Chinese leaders had often stated with pride that China, traditionally a net food importer, had developed into a net food-grain exporter. When this trend changed in the 1960s and China started importing grains it might have caused embarrassment to the Chinese leadership. That might have been the reason of Chen Ming's statement which stressed the price advantage, implying that the wheat imports were not caused by domestic food shortage.

The other Chinese explanations were that China continued to import some grain mainly to increase varieties and to help other

36 Wilson, n.30, p.367.
37 Mah, n.33, p.117.
countries.\textsuperscript{38} As far as the Third World countries were concerned, there had been no doubt that China had used its rice transactions as an instrument of foreign aid to meet her political gains. According to Canada's \textit{Winnipeg Free Press}, dated 29 August, 1961, two cargoes of wheat totalling about 60,000 tonnes were shipped directly to Albania from Canadian East Coast ports during March, April and May of 1961 and a further 160,000 tonnes were to be shipped to East Germany in the latter part of 1961. Even the Canadian Minister for Agriculture, Alvin Hamilton, had stated in Ottawa on 9 August, 1961, that on instructions from the Chinese Communist Government, part of the wheat bought by China from Canada earlier that year was shipped to Albania. The quantity involved in that transfer of grain was 2.2 million bushels worth of $3 million.\textsuperscript{39} It was significant politically as it represented a very substantial amount of grain for only 1.4 million people and it might have provided as much as one-fifth of the domestic requirements.\textsuperscript{40} In a television interview with some Canadian newsmen in 1961, Chen Yi had stated, "we are also exporting some grain to help other countries which have difficulties... yet some people in the West are using this situation to trump up all sort of stories".\textsuperscript{41} Thus it signified the fact that in the early 1960s China imported grains from Canada not only for its domestic needs

\textsuperscript{38} ibid.

\textsuperscript{39} \textit{Kessing's Contemporary Archives}, vol.3, 2-9 September 1961, p.18302.


\textsuperscript{41} \textit{Peking Review}, vol.4, no.28, 14 July 1961, p.10.
but also to cater to its political and strategic interests at a period when it was isolated from both the superpowers. It was natural for a country like China to have political allies through economic benefits in order to win the support of those countries in the international arena.

Regional Distribution

According to Audrey Donnethrone's analysis, China imported grain from the West in the 1960's due to deficiencies in the existing transportation system; decentralisation in the post GLF period and maintaining for reserves. Undoubtedly the transportation system was the most significant cause for import of wheat. The disposition of grain from the countryside was as important as the requirement for food security and was a major factor influencing both transportation and trade policy. In China the grain is produced in the provinces of Sichuan, Heilongjiang, Jilin, Hunan and Jianxi which are far from the coastal cities to which they must transfer their produce. These coastal cities are Beijing, Tianjin, Shanghai and Dalian. These are grain deficient and the costs of overland rail transport from the rural areas are enormous. In addition, development of railway transportation had been slow, with its capacity increasing only two-fold between 1952 and 1978, while volume of freight increased nine-fold. Moreover, concentration of new railway lines has been in militarily strategic West China, even though most of the demand for


43 Asia Year Book (Hong Kong), 1982, p.140.
the movement of goods is in the Eastern coastal region. Since 1961, Government policy has discouraged the transportation of wheat by rail by charging higher rates compared to the industrial products. Therefore, it was more economical for China to feed the huge urban population on the East Coast with imported wheat than to produce it in the North and North East and ship it by an inadequate transport system. This policy of substituting imported wheat for Chinese rice was fully displayed by the changing diets of the people in Beijing and Tianjin. In these places, rice used to account for two-thirds of the consumption, but it was reduced to one-fourth after the mid-1960s. The urban population of China, mainly situated around the ports, have been benefitted by the Government's policy of importing wheat from the West.

Population

Population explosion has been one of the causes for the import of grain from Canada. China's grain output has not kept up with population growth. A comparison of China's and Canada's wheat production illustrates the population burden which China had faced. China accounted for an average of 13 per cent of world wheat production and was a net importer, while Canada produced only 5 per cent of the world total and exported about 12 per cent of that to China alone. Even as a major wheat producer, China needed to import grain to augment her grain supply and feed her population. 46

44 ibid.


population. While it is beyond the scope of this dissertation to examine and evaluate China's agricultural and demographic development, the following observations can be made. The fact remains that over the years China's grain output has increased from 113 million tonnes in 1949 to 379 million tonnes in 1985 due to Government's top priority for agriculture since the 1960s and the increasing usage of chemical fertilizers, pesticides, investment in rural infrastructure (electrification and irrigation) and improved seed varieties. However, the application rates of non-farm inputs in China in the 1960's were still substantially below the rates in Japan and Taiwan, suggesting that significant agricultural gains could have been made by further increasing these inputs.\textsuperscript{47}

From 1958 to 1960, grain production suddenly dropped by 50 mmt or 28 per cent from 193.5 mmt to 139.4 mmt.\textsuperscript{48} This production shortfall has already been discussed. In 1965, China's grain production reached 194.5 mmt., slightly higher than the 193.5 mmt. attained in 1958, which was the highest level prior to the critical shortfall period. But, as population increased in the seven intervening years, the production per capita was only 268 Kgs. in 1965; 8.5 per cent lower than the 1958 level of 293 Kgs. It was not until 1971, thirteen years later, that China restored grain production per capita to its 1958 level of 293 Kgs. It slowly increased to 316.6 Kgs. in 1978, which marked the beginning of revolutionary reforms in economic politics.

\textsuperscript{47} Samuel P. S. Ho and Ralph W. Huenemann, Canada's Trade with China: Patterns and Prospects (Canada, 1972), p.35.

\textsuperscript{48} See, Carter and Zhong, n.19, p.5.
China Still Imports Grain

The puzzling feature of China's grain imports in more recent years is the fact that, although the reduced crops of the early 1960s have been replaced by bumper crops in 1984 (407.31 mmt), the quantity of Chinese grain purchases has remained relatively undiminished right through the mid-1980s. Since 1961 China has imported grain at an average annual level of over 7 mmt. In 1971 China, inspite of announcing that it was once again "more than self-sufficient in grain", placed the largest order since 1961 with the Canadian Wheat Board.

The factors responsible for the grain imports in the early 1960s, discussed above, still stood good through 1985. Nevertheless, there have been other causes responsible for the increasing grain imports from the West. China's arable land is limited to only about 11 per cent of its total area and the extent to which it can be expanded is not infinite. Although productivity can be increased, this has limitations too. China's energy constraints have curtailed both the development of chemical fertilizer production and the mechanization of agriculture. This is further compounded by the growing burden of China's population which was 1.04 billion in 1985. The Government has adhered to a strict policy of food security based on State procurement of grain, urban food rationing and carefully controlled grain storage systems. However, grain storage facilities are limited and food reserves are marginally adequate. Thus China's imports of grain

from the West provide an important margin of security in food supply and assure stability of domestic markets.

China's current modernization programme further emphasizes the significance of food supply in the modernization of the economy. Hu Yaobang in his address to the Twelfth National Party Congress in September 1982 stated the Party's policy as, "First, feed the people, and second, build the country". The post-1979 modernization policy has placed its priority on 'the people's livelihood' which means more food for peasants and urban workers. The "four modernizations" programme had also stipulated that agricultural development be facilitated by raising peasants' standard of living and decentralising responsibilities for marketing and production to individual households and collectives. This means that more grain was available for peasant consumptions. Hence the imports of grain from the West reduces the pressure on rural grain production.

Moreover, the Government's agricultural policy encouraged the peasants to expand acreage for industrial crops, such as cotton and oilseeds, and offered incentives to diversify the production. The proportion of area under grain crops to total sown area of farm crops has declined from 87.8 per cent in 1952 to 75.8 per


cent in 1985, whereas proportion of area under industrial crops to total sown area of farm crops constantly increased, with little variation, from 8.8 per cent in 1952 to 15.6 per cent in 1985.\(^5\) This trend occurred as the pressure on the peasants were reduced due to the Government's supply of imported grain to the urban population. The production of industrial crops was more lucrative to the peasants than grain and improved peasant income and diet.

A more subtle implication of grain imports from the West is the flexibility it allows the Government for planning its agriculture. The "production responsibility system" that allowed greater autonomy to the peasants resulted initially in an unexpectedly large shift away from wheat production and the subsequent decrease in food supply. The import of wheat for the urban market no doubt insured against such unforeseen consequences of policy during the period of readjustment in agricultural organisation.\(^5\)

Another consideration continuing to influence import of grain is the policy to spur industrial production by increasing the availability of urban consumer goods, including food. A direct benefit of grain imports was the increase in supply of meat to the urban market and suspension of meat rationing. The output of pork, beef and mutton increased substantially from only 85.63 million tonnes in 1978 to 176.07 million tonnes in 1985. Moreover, the output in a single year from 1978 to 1979 increased by 24 per

\(^5\) Calculated from, State Statistical Bureau, China, n.4, p.137.
\(^5\) Minden, n.17, p.12.
cent. This increase in meat consumption stimulated the need for large quantities of feed, including grain. Bread became more popular and more available in the urban diet. The shift from rice to bread, and coarse grains to wheat, has been read as an indicator of increasing prosperity in developing nations.

GRAIN TRADE AND ITS ROLE IN SINO-CANADIAN RELATIONS

Long before 1960 Canada had desired to penetrate the vast Chinese grain market. However, the massive grain transaction was not fully realized until 1960 when the PRC had a domestic demand, which has been discussed earlier. The grain trade thus occurred at a time when both the countries needed to trade with each other.

Grain Trade in the 1950s

In 1955 the first grain transaction between Canada and China took place when the East-West Import Company Limited of Vancouver decided to exchange, with the China National Cereals, Oils and Foodstuffs Import and Export Corporation (CEROILFOODS) 1,080,000 bushels of wheat for 5,000 tonnes of shelled peanuts. This deal was struck with the initiative of private dealers with the permission of C.D. Howe, the Liberal Minister for Trade. The Canadian Wheat Board (hereafter CWB) had played no role in it.

55 Calculated from State Statistical Bureau, China, n.4, p.151.
56 Minden, n.17, p.14.
57 CEROILFOODS is one of the fourteen Trading Corporations directly under the Ministry of Foreign Economic Relations and Trade (MFERT) of the State Council and it negotiated with Canada for all food imports to China.
58 Globe and Mail, 5 December 1955.
59 ibid.
In 1957 Canada's wheat surplus reached the historical record of 743 million bushels and this increased the Canadian interests to trade with China. That year, Diefenbaker was elected Prime Minister of Canada from the Conservative Party with the promise of improving Canada's deteriorating trading position, part of which involved selling goods to China. Before the end of 1957 the Chief Canadian Trade Commissioner, C.M. Forsyth-Smith was stationed in Hong Kong and often visited China. The explicit task of Forsyth-Smith, had been to seek an opportunity to sell at least 1.1 million bushels of wheat a year to the Chinese. He visited Guangzhou, Beijing, Shanghai and Tianjin and surveyed China's market demands and their trading methods. Although no immediate contract was signed, the visit was significant as it was the first official effort by Canada to trade with the PRC. His report about the trip also provided some first hand information which was important for Canadian businessmen willing to trade with China. At the same time officers from the CWB visited Hong Kong, keeping close watch on the Chinese grain market. Furthermore, his predictions that the trade with China would go as high as $25 million to $30 million in the next two or three years turned out to be true during the subsequent years.

61 Globe and Mail, 22 October 1957.
62 Foreign Trade (Ottawa), 1 February 1958, p.6.
In 1958 Canada's efforts were rewarded when the PRC imported 102,700 tonnes (3.8 million bushels) of wheat from Canada.\(^6^5\) This deal was struck between the Canadian Northern Sales Company and the China Resources Company (Hua Reng Company), an agency of the Chinese Foreign Trade Ministry stationed in Hong Kong. Actually this important initial sale was organised indirectly by the CWB with the approval of its Government. As Gordon Churchill, the Minister responsible for the CWB, recalls:

In the spring of 1958,..., our Trade Commissioner in Hong Kong, Mr. Forsyth-Smith... cabled that there was an opportunity of selling wheat to China and asked what response should be made. Although at that time there wasn't unanimous approval of trading with China, I thought as we were trading with Russia and Poland in wheat and they were Communist countries, I couldn't see any difference in selling wheat to China. And then, we wanted to get rid of our surplus. So I authorized the sale of wheat\(^6^6\)

The CWB did not act directly with the PRC as the time was not ripe for the Board to deal with the Chinese directly. With the Canadian Government's approval, eight cargoes of wheat were soon despatched to China and the amount was paid promptly by the latter.\(^6^7\)

For the Chinese such a sale was a "goodwill gesture to start trade with Canada".\(^6^8\) Indeed, China's import at that time was not due to its domestic need but for trade considerations. In


\(^{67}\) ibid.

\(^{68}\) *Globe and Mail*, 6 September 1958.
1958 China's grain output was maximum since 1949\textsuperscript{69} and there was no immediate need for importing grains. However, in an attempt to balance Canada's trade deficit with China, perhaps it decided to increase her imports from Canada. As a result, China's grain imports of that year jumped to the highest point since 1949 and Canada for the first time gained a favourable balance of trade with China.

The trade was relatively insignificant when compared with Canada's total grain exports to other countries. The grain trade of Canada with the PRC only accounted for 1 per cent of Canada's total grain exports of 1958. For the following two years this type of sale was not repeated. There was one cargo of wheat (12,400 tons) shipped to the PRC in 1959 which was part of the quantity sold in the previous year.\textsuperscript{70} The China market was not so far ready for import of grains from Canada.

\textbf{The Break Through (1961-1970)}

Alvin Hamilton, the Minister for Agriculture, was the person solely responsible for the final break-through in Sino-Canadian trade relations in the beginning of the 1960s.\textsuperscript{71} His significant role in relation to the PRC began on 11 October, 1960, when he was

\textsuperscript{69} See, Carter and Zhong, n.19, TABLE 1.2, p.5.

\textsuperscript{70} Canadian Wheat Board, \textit{Annual Report}, Crop Year, 1958-1959, Ottawa, p.15.

\textsuperscript{71} For a detailed analysis of Hamilton's role in the initial grain trade between China and Canada, see, Patrick Kyba, "Alvin Hamilton and Sino-Canadian Relations" (Conference Paper on "Canada China Relations since 1949", Montebello-Quebec, May 9-10, 1985).
transferred by the Prime Minister, Diefenbaker from Northern Affairs and National Resources to the Ministry of Agriculture. His broad strategy of selling surplus grain in the international market was the cause behind his taking charge of the Ministry of Agriculture.

In the Fall of 1960, Alvin Hamilton directed two Canadian trade commissioners, C.M. Forsythe-Smith and C. John Small in Hong Kong to visit Beijing and determine whether the Chinese were interested to mix Canadian wheat with their wheat or in other words whether they were interested in purchasing wheat from Canada. Both reported on their return that the food situation in China would be acute within six months due to poor harvests in 1959 and 1960. However, neither the Chinese had placed any order nor was any decision taken regarding wheat exports to China.

The situation changed dramatically almost overnight. Just before Christmas, two officials from CEROILFOODS arrived suddenly in Montreal in a desperate attempt to buy Canadian grain. They checked into the Queen Elizabeth Hotel and asked for a meeting with Hamilton. It was good news for the Minister for Agriculture and Canada as a whole. Even though he never met the Chinese personally, Hamilton had sent them to Winnipeg to negotiate directly with the CWB as the Board only could negotiate the deal. The whole affair was kept a secret in order to avoid any undue political problems.

72 ibid, p.2.

73 Stursberg, n.66, p.135.
On 4 February, 1961, Alvin Hamilton announced in the House of Commons, the sale of 40 million bushels of grain to China (28 million bushels of wheat and 12 million bushels of barley), the largest grain sale ever between the two countries. However, the agreement had been signed much earlier in mid-December 1960.

Encouraged by this success, W.C. McNamara and W.B. Riddell, two senior persons from the CWB, rushed to Beijing in an attempt to exploit the situation for more exports. Learning from them that China wanted more Canadian grain but it lacked foreign exchange, Hamilton immediately presented the case to the Cabinet and proposed a credit facility for China. The debate continued for almost six weeks inside the Government. The credit sales to China was not challenged seriously in the Canadian Parliament. The only opposition to such policy came from the Social Credit Party. Much credit should be given to Hamilton, the main advocate of credit sales to China. He mostly relied on economic reasons saying that even if China defaulted after the initial payment, it would be cheaper than storing the surplus wheat. Moreover, Hamilton was so optimistic about this new trade relationship that he had tendered his undated resignation to Diefenbaker, promising to quit if the Chinese defaulted.

75 Kyba, n.71, p.2.
77 Interview with Gorden Houlden, Deputy Director (East Asia), External Affairs and International Trade, Canada, September 1989.
Undoubtedly he had tremendous faith in China's clean image of repayment which was proved true in subsequent years.

On 2 May, 1961, the first long-term agreement on grain sales covering the period from June 1961 to December 1963, was announced in the House of Commons, Canada.\(^{78}\) All the agreements were made between the CWB and the CEROILFOODS. The terms of the agreement were spelt out vaguely by Ottawa. Under the agreement the Wheat Board was "to supply a maximum of 5.0 million tons of wheat and 1.0 million tons of barley, with the actual amount, quantities, and prices to be decided by negotiations.\(^{79}\) To put it in another way, Beijing had agreed to buy upto 186 million bushels of wheat and 46.7 million bushels of barley from the middle of 1961 until the end of 1963; the precise amounts, prices and delivery dates were left to be worked out in a series of subsidiary agreements.\(^{80}\) The contract was negotiated, "under the terms of the long term agreement, which provided for payment of 25 per cent cash, with the balance payable in 273 days (later extended to 365 days) after date of invoice, and with interest to date of payment".\(^{81}\) The Canadian Government had extended a credit guarantee to the CWB in case payments were deferred.\(^{82}\) However, the first six contracts of the first long term agreement were for 25 per cent down payment and the remainder over 9 months but the seventh contract allowed

\(^{78}\) Canada, Commons, Parliamentary Debates, 21 May 1961, p.4205.


\(^{80}\) Lyon, n.76, p.42.

\(^{81}\) Canadian Wheat Board, n.79, p.13.

\(^{82}\) ibid, Crop Year 1962-1963, p.13.
12 months for the payment of the outstanding 75 per cent. The first contract was concluded for an order amounting to $66 million and the Government was prepared to guarantee up to $50 million credit on a short-term basis and the total value of the sales under the first long-term agreement was estimated at $362 million.83

The grain trade of the early 1960s had been the turning point in the history of Sino-Canadian relations. Prior to 1960 the bilateral trade was minuscule. As a result of the grain trade, a Canadian Government institution, for the first time since 1949, dealt with China directly. From then onwards, a substantial link between the two countries has been established by the CWB and the CEROILFOODS, the two Government agencies. As Otto Lang, the former Minister responsible for the CWB, once commented, "the Wheat Board recognised China before Canada did".84

Credit Sale to China

The fact that Canada was selling wheat to a Communist country, China, on credit terms was not new. In June 1955 the first wheat agreement was concluded between Canada and Poland, by which "Poland would buy 10,000,000 bushels of wheat for $19,000,000, but would pay only $3,000,000 immediately, the balance being advanced by a loan from a Canadian Commercial Bank, which was guaranteed by the Canadian Government".85

83 Saywell, n.74, p.421.
84 Minden, n.17, p.4.
strong criticisms about the credit agreement. The then Prime Minister, St. Laurent, in the face of opposition criticism had stated that "the Polish Government had made" no pledge of assets "which would ensure Canada against a possible loss", however, he said, "there was an undertaking to make the payment and the Government expected that this undertaking would be carried out".86 Therefore, the Liberal Opposition, at the time of Diefenbaker's rule was unable to attack the Conservative Government on the basis of the credit arrangements, and, at that point of time, had the Liberals attacked the Conservatives for selling wheat to China on credit terms, it would have been disastrous politically for the Liberals in the West Coast wheat belt. However, the essential difference was as Pearson had pointed out, that Canada had officially recognised Poland but she had no diplomatic relations with China.87 Once Canada undertook to guarantee the CWB's credit sales to the Chinese it had actually established itself as a trading partner with the PRC.

In most instances, the Chinese had paid the Canadian Wheat Board in fully negotiable sterling. However, the problem for Ottawa was the growing annoyance of the Chinese over their treatment. The Chinese had consistently complained that "although they have paid regularly and on time, Ottawa consistently has refused to give Peking the same credit terms it has extended to both Poland and Czechoslovakia".88

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86 Quoted in ibid.
87 Canada, Commons, Parliamentary Debates, 2 May 1962, p.4206.
Canada had granted to Poland 10 per cent down payment with the remainder due over the following 36 months. So, ever since the first grain deal, Beijing had applied strong pressure for easier credit terms. Until 1963, Canada had resisted China's pressure tactics partly because there were fears in certain quarters that if China were granted too generous repayment terms, she might in the end be unable to find the necessary dollars. However, at this crucial period, Canada had to face keen international competition from other wheat selling nations such as Australia and France. This forced the Canadian Wheat Board into easing its credit terms to the Beijing regime. Canada had finally agreed to extend the repayment period on wheat to meet the concessions made by Australia but she had all along refused to follow Australia in reducing the initial amount of cash required from 25 per cent to 10 per cent. Moreover, Hamilton could realise that his Party's electoral success in the wheat growing belt was directly linked with the wheat sale to China. So certain liberalization in credit terms was essential to keep the trade going with China.

Second and Third Long-Term Agreement

Since the Chinese preferred wheat to barley, the CEROILFOODS proposed to negotiate a new agreement instead of continuing the


91 ibid.
trade under the first one. On 1 August, 1963, the second long-term agreement was signed with the PRC's commitment to purchase from 3 to 5 million long tonnes of wheat within three years, covering the period from 1 August, 1963 to 31 July, 1966. The terms of payment were specified as being 25 per cent cash, with balance payable in 547 days after date of invoice and with interest to date of payment. 92

The second agreement was followed by the third long-term agreement covering the period from 1 August, 1966 to 31 July, 1969. It involved a minimum of 168 million bushels and a maximum of 280 million bushels of wheat for the three year period 93 or a minimum of 7.5 million tonnes of wheat for the three year period. Actually the total Chinese purchases from Canada during this three year period was almost 6 million tonnes. In terms of bushels it totalled 235 million bushels during the three year period. 94 The credit provisions were the same as the second long-term agreement.

In the 1960s, from the crop year 1960/61 to the crop year 1970/71, China had imported from Canada more than 19 million tonnes of wheat and wheat flour, 95 thus becoming the second largest customer of Canadian grain, next only to the UK. All the

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93 ibid, Crop Year 1965-1966, p.10.
95 Calculated from TABLE 5.
deferred payments under the credit terms had been honoured on or before the due date. As the Canadian rates of interest on credit were higher than those charged by Australia or France, who were also major grain trading partners of China, the Chinese tried to save some of the interest on her huge grain payments to Canada. The price of sterling during this period had remained steady and strong. Finally, Beijing was able to earn more foreign exchange as it had exported more soybeans than had been anticipated, thus enabling China to repay Canada on time.

Impact on China

The grain trade was very important to China, especially in the early 1960s when the food situation was critical. Although grain imports till the mid-1970s amounted to only 2 to 3 per cent of China's domestic production, it had met certain special needs and problems, especially feeding the growing urban population and containing the inflationary pressures. Most of the grains imported from Canada was mixed up with the grains produced in China to support the army, factory workers, party cadres and other urban population. In the first two years, from January 1961 to January 1963, China imported from Canada 4.8 million tonnes of wheat and nearly 1 million tonnes of barley which could enable at least 15 million Chinese, about 13 per cent of the urban

97 Interview with Houlden, n.77.
98 Globe and Mail, 17 November 1962.
population, to survive for two years. Thus with the grain imports from Canada and other Western countries the food situation in China was greatly improved. The death rate in China's cities dropped from 13.77 in 1960, which was higher than 1959, to 11.39 in 1961 and further constant decline occurred till 1973 (official figures from 1967 to 1970 not available).

The grain trade also helped the Chinese peasants to recuperate from the successive strains of drop in production. From 1957 to 1962, the Chinese Government had reduced its grain purchases from the peasants from 46 million tonnes to 32 million tonnes and the differences were made up by grain imports. The import of grain also gave a substantial relief to the internal transport system.

The grain trade led to fundamental changes in the PRC's foreign trade. Until 1960, the Soviet Union and other East European countries were China's principal trading partners. In 1957 China's trade with the Communist countries and non-Communist countries was 64 per cent and 36 per cent respectively of its total foreign trade. But by 1964 this trend had changed dramatically when China's total trade with the Communist countries was only 37 per cent and the trade with the non-Communist countries was 63 per cent of the total trade.

99 ibid, 12 October 1966.
100 State Statistical Bureau, China, n.4, p.72.
101 ibid, p.458.
with the Communist bloc declined primarily due to the Sino-Soviet rift. Under such circumstance most of her earnings from exports were used in repayment to its earlier major trading partners. At the time when China started importing grains, the Government, as estimated by the Western scholars, had Western currency reserves of only US $285 million including US $35 million in gold holdings. Thus it was very difficult on the part of China, with its limited foreign exchange, to buy more grains from Canada, inspite of Canada offering generous credit terms to her.

Canada was also concerned with China's capacity to pay which was important not only for the existing contracts but also for the future grain trade and China's overall exports. During his visit to Hong Kong, Hamilton had discussed the issue with the Chinese and offered to help in promoting China's foreign trade. He encouraged Canadian businessmen to go to the Chinese Export Commodities Fairs and urged them to take advantage of the opportunities created by the grain trade. He also invited the Chinese to open a trading office in Canada. When the business community of Canada failed to respond to his advice, he turned to friendly countries in Asia and South America and asked them to trade with China. It was a successful endeavour and China's exports increased dramatically, although not to the extent desired by Beijing.

Hamilton's efforts in bringing the US and China to trading terms was also an important aspect of Sino-Canadian relations.

104 ibid.
105 Kyba, n.71, pp.16-17.
Alvin Hamilton and several other Canadian Ministers visited Washington at the invitation of President Kennedy. Hamilton tried to convince Kennedy during the discussions that the first step towards a lasting peace with China would be to trade with the PRC. He also informed the President that Canada would like to share half of her grain deals with the US. This would benefit the farmers of both the countries and facilitate communication between Washington and Beijing. The idea had attracted Kennedy and, although he failed to accept Hamilton's offer, at that time he did not object to the Canadian grain exports to China. Kennedy's inclination to trade in grain with China could be partly explained as the result of increasing pressure from the American farmers who were also anxious to get rid of their wheat surplus. Unfortunately they had to wait for another decade before they could send their grain to the PRC.

The decision to import grain from Canada and Australia was made by Zhou Enlai and after reporting to Mao Zedong he directed the officials to approach these countries. Although the affairs of grain imports were managed by the CEROILFOODS under the Ministry of Foreign Trade, the policies and major decisions were made and supervised by the late Chinese Premier until his death in 1976. The Chinese authorities have certainly felt grateful to Canada for its timely help. Marshal Chen Yi, the then China's


108 Based on the interview with Huldon, n.77.
Minister for Foreign Affairs, told Howard Green in 1962 at Geneva that:

The Americans wouldn't sell us wheat. We couldn't get it anywhere. We didn't have facilities for storing it in China and we are very grateful to Canada for selling us wheat.\(^{109}\)

**IMPACT ON CANADA**

Since 1961 the PRC has been the largest customer for Canadian grain. Grain has accounted for the major share of Canadian exports to China. About half of China's wheat imports have originated from Canada, making her the largest regular customer for Canadian wheat. During 1965 to 1980 on an average, every seventh bushel of wheat produced in Canada was purchased by China, It accounted for about 7 per cent of wheat consumption in China. This analysis by Kostecki shows that the Canadian grain producers have been more heavily dependent on Chinese wheat consumers than the latter on Canadian wheat.\(^{110}\)

**Canadian Wheat Board**

Canada maintains a centralised system of grain market, which is responsible for regulating domestic production, exports and in the long run, producer's revenue. It is the Canadian Wheat Board which is the sole marketing agency for Canadian grain. Dan Morgan has aptly described the great image of the CWB:

As marketing boards go, the Canadian Wheat Board is the most powerful and prestigious in the world. It has an

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awesome reputation, and its grey stone headquarters in Winnipeg underscores its power and apparent impregnability. Although it is run on behalf of farmers and is supposed to account for its actions to its farmer members from the Prairie Provinces of Alberta, Saskatchewan and Manitoba, it is often as secretive and aloof as a grain company. It never tells what price it receives when it negotiates with the Russians or Chinese or other governments that want to purchase Canadian Wheat. The Board justifies this in terms of its sacred mission, protecting the interest of Prairie wheat farmers.

On the other hand, as earlier pointed out, it is the China National Cereals, Oils and Food-Stuffs Import and Export Corporation, which is the sole importer of foreign grain to mainland China. It is the state trading corporation which functions through state monopoly. In China the concept of private grain companies did not exist but on the other hand, in Canada the CWB frequently accepted the services of private grain companies. Thus there were two types of sales of Canadian grain to the PRC; direct sales by the CWB and indirect sales, conducted by grain companies.

As a rule, the PRC bought Canadian grain directly from the CWB and that enhanced the significance of the CWB's contribution to the Sino-Canadian relations. However, it should be borne in mind that the distinction between direct and indirect sales was not always clear-cut. Even with direct deals, the private companies sometimes lent assistance in handling the grain, especially with respect to insurance and shipment formalities. According to Kostecki's analysis the bulk of Canada's grain

exports to China was shipped through the importer's vessels, which at times may give the CWB an edge over the US grain exporters. While buying US grain, the importer had to comply with US federal regulations requiring that at least one-third of all grain exports must be shipped under the US flag.112

The Chinese were very particular about knowing and trusting the people with whom they deal.113 This fact made the CWB very sensitive to the grain deal issues with the PRC and for which a highly cautious approach with patience had been undertaken by the Canadian negotiators while dealing with the Chinese. Moreover, "in order to develop personal linkage, the CWB has tried to maintain some continuity in the representatives it sends to Peking and these men, both personable and astute, have reportedly developed friendly relations with their counterparts in China".114

In addition to the personal image created by the Canadian negotiators, the CWB gained a reputation for impeccable standards of weighing, grading and cleanliness, which were highly appreciated by the Chinese.

This image of Canada as a reliable trading partner and the good personal relations established by the CWB representatives worked in Canada's favour in Stockholm in 1969, when Canada and

112 Kostecki, n.110, p.16.
114 Minden, n.17, p.7.
China pursued the establishment of diplomatic relations.\textsuperscript{115} Historically, the CWB played a significant if not central role in establishing the groundwork for diplomatic recognition in 1970. It made the first formal trade link with the PRC in 1961 by extending credit and thereby establishing a regular and valuable trade relationship for Canada. It also created a positive image of Canada in China and personal link at the official level. Otto Lang was right when he said that the CWB had recognized the PRC in the early 1960s, before the Canadian Government granted diplomatic recognition to China.

Undoubtedly Canada has economically benefitted by trading with the PRC. From the crop year 1960/61 to 1985/86, Canada's wheat and wheat flour exports to China was 17.2 per cent of Canada's total wheat exports to all destinations.\textsuperscript{116} For about 55,000 Western Canadian wheat farmers, sales to the PRC represented 27 per cent of their annual income in 1981. Canadian income from wheat sales to the PRC ranks third in Canada's total income, after automobile sales to the US and wheat sales to the USSR.\textsuperscript{117}

The increase in volume of trade between the PRC and Canada (a steady increase from $15 million in 1960 to $1662 million in 1985) and an increase of wheat and wheat flour exports to China from over 7 million tonnes in the crop year 1960/61 to over 26 million


\textsuperscript{116} Calculated from TABLE 5.

\textsuperscript{117} Minden, n.17, pp.14-15.
tonnes in 1985-86 has had an enormous impact on the Canadian transportation system. By the end of the 1970s the Canadian Government saw the system to be inadequate to handle the demands, and detrimental to the growth of Canadian wheat exports. For example, in December 1977 there was a serious train derailment, in February 1978 massive snowdrifts blocked the tracks and in November of the same year mud slides had closed the Port of Prince Rupert for several weeks. As a result of this the Chinese ships waiting to load the wheat got delayed by three weeks at Vancouver and the Canadian Government had to bear the cost of penalty for not being able to deliver on time. The Chinese were so perturbed that they had sent a delegation from the CEROILFOODS to inspect Canadian transportation problems.

Added to this problem was the Sino-American rapprochement of 1972, which was a threat to Canada's wheat export to the PRC. The American wheat differed in quality from the Canadian wheat. The softer American wheat was less expensive and its transportation network was more efficient for grain delivery than its counterpart in Canada. Thus Canada lost the competitive edge on commercial grounds after the 1972 Shanghai Communique.

In an attempt to recover the actual and potential losses, the CWB had to purchase 2000 new railway cars in 1979 and the Federal

118 See, TABLES 6 and 5.
120 ibid, 21 December 1978.
121 ibid, 11 January 1979.
Government overhauled 4000 existing ones and bought 2000 grain hopper cars in 1980. The Canadian Grain Transport Agency was established and the improvement of grain shipment became a Government priority.

The development of Canada's West Coast port facilities also reflected the impact of trade with the PRC on Canada. Most of Canada's wheat exports to the PRC was carried on through the Pacific ports. The Port of Prince Rupert was expanded to augment West Coast capacity and to lessen the risk of interruption of rail service. Major storage facilities were also added to Vancouver port to facilitate trade with Asia.

China's uninterrupted import of wheat from Canada signified the fact that the Canadian wheat production had responded to the demands of the Asian market for medium and lower quality wheat. Carter and others have indicated that the market for medium quality wheat was, by far, the largest and most rapidly growing, while the market for high-quality wheat was, at most, growing very slowly. China, particularly imported lower-protein wheat from Canada whereas other importers, such as Japan, imported only high-quality wheat. As a result of this Canada has responded to the demands for both types of wheat. It has allowed the licensing and production of certain high-yielding lower protein varieties. For

122 ibid, 16 August 1980.

123 ibid, 28 April 1979 and 3 May 1979.

example, the HY320 was licensed in 1985. The farmers in Canada now have the option of growing high quality and high yielding, lower protein wheat.

The grain trade between Canada & China had an impact on the Canadian politics. In the Prairie Provinces of Alberta, Manitoba, Saskatchewan, the disposal of surplus wheat had become a major political problem. In the late 1950s the farmers had begun to look forward to the overseas market. Though Diefenbaker was a staunch anti-Communist but with his Prairie political strongholds at stake and personal sympathy for the Prairie farmers, he approved the wheat deal in 1960. As a result, during the election of 1963, the Progressive Conservative Party of Diefenbaker gained the support of the Prairie Provinces even when losing power in other parts of the country. Actually, the then Minister for Agriculture, Hamilton played a significant role in the grain deals and became very popular among the Prairie farmers overnight and helped his party to win over most of the Prairie seats during the 1962 and 1963 elections. Moreover, Canada's stake in the grain trade with China now was so obvious that most Canadians supported the Governments' decisions in dealing with the PRC. The Gallup poll in Canada in 1950, 1959, 1964 and 1966 rightly showed the

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pattern of an increasing concern for diplomatic recognition to China.128

Canada's wheat sales to the PRC were virtually institutionalized during the Pearson era. The PRC was revealed to be a good market for Canadian wheat when the Trade and Commerce Minister, Mitchell Sharp announced the second long-term agreement. Easier credit terms were granted to China, reflecting the good record of the PRC in observing the previous agreement and the glut of wheat in Canada. Moreover, the third long-term agreement was signed in 1966 making the Sino-Canadian relation even stronger. All these made the Prairie agricultural industry depend more on the Chinese market and thus supported the diplomatic recognition to China. However, there existed differences of opinion among the Canadians.129

The grain transactions with China had provoked some regional conflicts in Canada. While the Western farmers were overjoyed at the continued wheat exports to China, the Eastern textile producers became worried about increased Chinese textile imports. It should be pointed out that their interests were protected by the Canadian Government when the trade with China had first begun. As early as 1958, "dumping duties" on Chinese textiles were applied to bring their prices into line with similar goods from


129 For details see, Paul Evans and Daphne Taras, Canadian Public Opinion on Relations with China: An Analysis of the Existing Survey Research (Joint Centre on Modern East Asia, University of Toronto-York University, Canada and the Pacific Project, Working Paper, January 1985), pp.12-13.
the UK and the US. Later on the duties were reduced to bring the prices of the Chinese goods into line with equivalent goods from Japan and Hong Kong. This was a major concession to the Chinese Government. After 1963, however, as each new wheat deal was arranged, a list of sensitive goods and voluntary quotas for them were negotiated. This list drawn up by the Government was an indicator to the Chinese which goods they "voluntarily" ought to restrict from export to Canada. However, the Chinese had never met these quotas inspite of trade deficits with Canada.

The grain trade considerably affected Canada's public opinion, which started favouring a change in Canada's China policy. The Western farmers and small business community favoured a better relationship with the PRC in order to put the trade in full swing. The first Federation of Canada-China Friendship Association, comprising of some school teachers, small businessmen and former missionaries, was established in 1964 in Vancouver and was followed by several others. The Association openly campaigned for the recognition of China, the PRC's entry into the UN and promotion of trade. Various political groups, such as, Labour Unions, the United Church and Women's Organisations came out in favour of Canada's recognition of China. The only groups to oppose recognition during that period were the older Chinese-

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130 Financial Post (Toronto), 10 August 1958.


132 Holmes, n.116, pp.144-5.
Canadians who had traditional ties with the Chinese Nationalists, certain East European ethnic societies and some Roman Catholics. The major Canadian newspapers, such as The Globe and Mail, The Vancouver Sun and others favoured recognition of the PRC. Lynch wrote a book about his trip to China and suggested that diplomatic recognition to China would be in Canada's national interests.

The Sino-Canadian trade of the 1960's was seen by the Canadian as a test case of Canada's independence from the US. The US remained disgruntled, (inspite of being kept informed by Canada) by Canada's grain transactions with the PRC and many a time complained that Canada gave better credit terms to China than it gave to some "friendly" countries. The Under Secretary of Commerce, Franklin Roosevelt Jr., pointed out that trade with China on a long-term credit basis with low interest rates, had to be construed as economic aid to China rather than trade. In May 1963, the Assistant Secretary of State for Far Eastern Affairs, Roger Hilsman, indicated that the US was not favourably disposed toward its allies' decisions to trade with the PRC. The US's unhappiness and its intereference with Sino-Canadian trade, reinforced the Canadian nationalists' claims that "Canadian

133 Ottawa Journal, 10 November 1967.
134 Canada, Commons, Parliamentary Debates, 2 October 1963, p.3116.
137 ibid.
foreign policy is made in Washington instead of Ottawa." Moreover, Canada's relation with the PRC became an issue of Canada's independence in international affairs.138

The grain trade had a significant impact on Canadian politicians and Government officials. A study by Paul Evans and Daphne Gottlieb Taras shows that during 1960 to 1970 the amount of time devoted to Sino-Canadian relations in the House of Commons exceeded that given to any other country, with the exception of the US.139 This finding is significant in the sense that for a decade following the grain deal the elected representatives devoted more consideration to the PRC than to the UK, France, the USSR or Japan. In most cases the China issue was related to the prospect of increasing trade.

During the Sino-Indian War in 1962, as earlier pointed out, inspite of a reported Indian request to stop the grain trade with the PRC,140 Canada continued its export of wheat to China. At this crucial juncture Canada adopted a dual diplomatic posture; while it provided arms to India, it kept its grain trade with the PRC untouched. However, no permits for other exports to China were issued. To Ottawa, "the more of its foreign exchange resources that China is required to use for imported foodstuffs, the less is available for manufactured goods which may have a more


140 See, Kyba, n.71, p.13.
direct bearing on its military strength." Canada was of the opinion that there was nothing wrong in trading with China while other Western countries were still trading with the PRC. Furthermore, Canada had pointed out that if India did not break off her diplomatic relations with the PRC, why should Canada stop trading with China. In order to clarify Canada's stand in the event of Chinese aggression, Alvin Hamilton had also commented that Canada would sell wheat to any country regardless of its politics. The international politics and the wheat trade had been separated by the Canadian Government in order to keep the trade going. Had Canada taken any strict stance towards the PRC to stop its wheat trade it would have been not only a setback in its economic sector but also to the political arena.

Undoubtedly, the bilateral relations between the two countries in the 1960's were directly linked with the grain trade. As the trade kept on increasing, cultural exchanges and other activities increased. Despite the resentment by the textile industries, both the Conservative and Liberal Governments of Canada encouraged Chinese trade commissions to visit Canada and examine potential markets. The first group of Chinese traders visited Canada at the invitation of Hamilton in the Fall of 1961 and were given opportunities to meet business groups and Government officials.

141 ibid, p.14.


143 For comments see, Globe and Mail, 30 October 1962 and 17 November 1962.
Many Canadians also started visiting China which gradually promoted better understanding and closer contacts between the two countries. Alvin Hamilton, visited the PRC in 1964 and had talks with the Chinese Premier, Zhou Enlai and travelled extensively in China.\textsuperscript{144} Other notables included Liberal Senator Donald Cameron and the Chief Commissioner of the CWB, Frank Hamilton.

\textbf{SINO-CANADIAN TRADE SINCE THE RECOGNITION}

Canada was the first Western country to recognize the PRC since the French recognition of China in 1964. It also played a significant role in bringing Beijing into the United Nations. This special relationship between the two countries along with the political goodwill has not only economically benefitted Canada but also the PRC.

During the period of Mao Zedong, the Chinese had stated explicitly on numerous occasions that politics and economics were interlinked and that 'politics should take command.' Under this principle Mao had argued that China had no choice but to "lean to one side."\textsuperscript{145} Accordingly in the 1950s, a major part of China's commodity trade was with the USSR and other Communist countries. However, due to the Sino-Soviet rift China's pattern of foreign trade in the 1960s changed dramatically and the share of Communist countries to the PRC's foreign trade declined considerably and the


\textsuperscript{145} For details see, \textit{The Selected Works of Mao Tse tung} (Peking, 1969), vol.4, pp.411-23.
share of non-Communist countries increased constantly, by which Canada entered the Chinese market with a good breakthrough in 1960/1961.

These developments revealed that political considerations were intimately involved in China's trade decision. Nevertheless, economic factors had been important also. It is interesting to note here that the PRC's pattern of trade was the complex interlinkage of economic and political goals. At the aggregate level, if one looks into China's trade with non-Communist countries to find out whether trade tended to go to the countries extending diplomatic recognition, the answer seems to be that there was a weak trend in this direction in the 1950s but this was reversed in the 1960s due to the Sino-Soviet rift.146

In the 1960s Japan emerged as China's single most important trading partner. This case is sometimes cited to support the view that political considerations are unimportant in determining China's trade pattern. However, such a conclusion is unwarranted. In 1958 Beijing broke off formal trade relations with Japan due to "Nagasaki flag incident," which brought into focus the deeper political tensions between Beijing and Tokyo.147 Although formal trade relations were re-established in 1962, the PRC had continued to attack the Japanese Government for separating politics from

146 For details see, Samuel P.S. Ho and Ralph W. Huenemann, Canada's Trade with China: Patterns and Prospects (Canada, 1972), TABLE 4, p.8.

147 For details of the Nagasaki incident and the events surrounding it, see, Gene T. Hsiao, ed.,"The Role of Trade in China's Diplomacy with Japan", in Jerome A. Cohen, The Dynamics of China's Foreign Relations (USA, 1970), pp.43-47.
In April 1970, Zhou Enlai had reaffirmed the importance of political considerations in Sino-Japanese trade when he declared his "four principles", which included the stipulation that China would not deal with any Japanese firm that gave assistance to or invested in, Taiwan or South Korea.\textsuperscript{148} It meant that there had been a correlation between politics and economics.

In the Sino-Canadian relations, the same pattern has taken place. Trade has been used as an instrument of foreign policy. During the post-recognition period, the volume of trade between the two countries had increased greatly, which suggests a interrelationship between the recognition and trade.

Since the recognition, the trade between the PRC and Canada had expanded significantly. Total Chinese imports from Canada about $142 million in 1970, increased to $261 million in 1972. Moreover, in the sixteen years from 1970 to 1985, there had been an eight-fold growth in the value of China's imports from Canada, rising from the 1970 level of $142 million to over $1.2 billion in 1985. Interestingly, the expansion of China's exports to Canada was more impressive. In 1970 China's exports to Canada amounted to only $19 million. By 1985 this figure had climbed to $403 million. This was over twenty-one fold increase.\textsuperscript{149}

Although the volume of Sino-Canadian bilateral trade was considerable, it was not a major component of either country's multilateral trade. In 1985, the PRC's total imports amounted to

\textsuperscript{148} \textit{Current Scene}, vol. 9, no. 8, 7 August 1971, p. 9.
\textsuperscript{149} Calculated from TABLE 6.
US $42.2 billion and its imports from Canada were worth US $1.1 billion, which meant - Canada's share was only 2.6 per cent. For the same year, China's total value of exports was US $27.3 billion, and its exports to Canada were US $234.5 million which meant just around 1 per cent destined for Canada. A similar situation existed in Canada's overall trade picture. Canada's 1985 worldwide imports totalled $104.9 billion and exports $115.9 billion. China's share of this trade amounted to 0.4 per cent and 1 per cent respectively. Although the figure was so small, the fact remained that by 1985, the PRC had emerged as Canada's fifth largest export market and the composition of trade between the two countries had shown a healthy change.

Wheat: China's Primary Import Commodity

Agricultural products had traditionally accounted for the bulk of China's imports from Canada. By far the single most important agricultural product that China imported from Canada was wheat. Thus, throughout the 1970s and 1980s wheat sales had skewed Canadian trade strongly from the direction of resource-based exports. In 1971, Canada's wheat exports to the PRC was 93.4 per cent of the total exports. Fourteen years later, the total exports to China had increased six fold, but wheat represented just over 60 per cent of annual total exports to the PRC. Each visiting Prime Minister, Secretary of State for

150 Based on State Statistical Bureau, China, n.4, p.481 and p.486.


152 See TABLE 6.
External Affairs and Minister for Trade had travelled to Beijing with the explicit goal of securing China's agreement to continue to consider Canada first as a source of wheat. On an average about 18 per cent of Canada's annual total wheat and wheat flour exports to all destinations went to the PRC between the crop years 1960/61 and 1985/86. 153

In the 1960s the importance of wheat exports was more pronounced than in the 1970s and 1980s. From 1961 to 1970, the export of Canadian wheat to the PRC on an annual basis, averaged 95.5 per cent of total exports.154 Since the beginning of the 1970s the importance of wheat in the Sino-Canadian trade declined considerably. The percentage of wheat exports to the total value of exports to China dropped from 93 per cent in 1971 to 64 per cent in 1985, on an annual basis; it averaged 79 per cent of the total exports.

The value of Canada's wheat exports to the PRC reached the highest record $916.9 million in 1983. However since then, wheat exports dropped dramatically to $445.6 million in 1985.155 This decline was largely attributed to the production of record crops in China.

RESOURCE BASED COMMODITIES

In order not to jeopardize the bilateral trade, both the countries had partially diversified the commodity composition of

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153 Calculated from TABLE 5.
154 Based on TABLE 6.
155 See, TABLE 7.
their trade with each other; Canada more so than China. The new trend in Canada's exports to the PRC since the 1970s had been the declining importance of wheat, and the rising importance of non-wheat commodities. The percentage of wheat exports to the total exports to China had declined constantly. Since the PRC's announcement of the "open door" policy in 1978, in order to promote trade, Canada, apart from wheat had exported more aluminium, wood, pulp, newsprint, potash, sulphur, copper and other minerals to China.

**Forest Products**

Due to China's inadequate timber reserves and the ecological damage caused by deforestation, its forest-based industry had been unable to meet the increased demand for wood products. Canada was a major exporter of pulp, paper and lumber and these became important exports to the PRC. Wood pulp was the largest single forest product with exports totalling $65.9 million in 1985. Its share in the total Canadian exports to the PRC was 5 per cent in 1985. This growth trend in forest products signified the fact that China's modernization emphasis on education and light industry had stimulated the demand for pulp and paper from Canada.

**Mineral Products**

Although China has vast mineral reserves, it is deficient in nickel, chromite and cobalt. Moreover, the mining sector is

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156 See, TABLE 7.

severely handicapped by energy shortages, transportation bottlenecks and old production techniques. This necessitated significant imports of some products from Canada, primarily aluminium. In 1985, Canada exported $98.5 million worth of aluminium to China,\textsuperscript{158} which was around 8 per cent of the total exports to the PRC. Other minerals exported were zinc, copper (refined), copper (ores), sulphur and potash.

Canada's performance in its aluminium exports to China had been significant. China's emphasis on light industry (the major sector consuming aluminium) had been a major factor for importing aluminium. China had been anxious to undertake a technological transformation of its metal industries to provide for increased production and reduced energy consumption. In order to achieve this objective China signed agreements with Canadian firms for joint ventures along with provisions for transfer of technology. For example, Alcan Aluminium Ltd. (through its Japanese subsidiary, Nippon Light Metal Co.) was involved in a joint venture to build an aluminium reduction plant in Guizhou province.\textsuperscript{159}

\section*{End Products}

There had been a meteoric rise in China's imports of end products from Canada. The end products consisted of drilling,

\textsuperscript{158} See, TABLE 7.

excavating and mining machinery, motor vehicles, aircrafts and its parts, telecommunication and other related equipment, measuring, laboratory, medical and optical equipment and office machines and equipment. Actually the significant increase in imports of end products took place in 1979 (from $7.13 million in 1978 it reached $18.2 million in 1979). From 1979 to 1983 China's imports from Canada annually averaged around $26 million. However there was a steep rise in 1984, when the total value of imports of end products amounted to $157 million, an increase of around six fold from the preceding year, and it further rose to $305 million in 1985, which was 24 per cent of Canada's total exports to China in that year. It signifies the fact that Canada has lately involved itself actively in China's modernization programme. Moreover, in the 1970s China did not import any significant amount of manufactured goods and equipment from Canada. By the mid-1980s however, the situation had changed dramatically at least from the Canadian perspective.

CHINESE EXPORTS TO CANADA

China's exports to Canada essentially comprised of three types of goods; apparel, textiles and cotton; food and beverages; other light industrial and processed goods. In contrast to Canada's exports to China, the commodity composition of Chinese exports changed far less since the 1970s, but the value of China's exports to Canada went up dramatically, particularly since 1979.

In 1970, the PRC's total exports to Canada were only worth $19 million. Within a span of nine years, the figure went up to $95 million in 1978, a five fold increase. The real breakthrough was achieved in 1979 when the total Chinese exports to Canada jumped to $167 million; an increase of 76 per cent over the previous year. In 1985, this figure stood at an impressive level of $403 million.161

The largest exports to Canada were that of Chinese textiles and clothing. In 1982, textiles and clothing (outerwear, broadwoven fabrics, miscellaneous apparel and accessories) amounted to only $96 million comprising 47 per cent of total exports to Canada. By 1985, this amount had increased to $215 million, which was 53 per cent of total exports to Canada.162 The other important commodities of export were minerals (mainly bauxite, aluminium and organic chemicals) food and beverages and manufactured goods and equipments.

However, the PRC's exports to Canada had increased at a slow pace and comprised relatively a narrow range of commodities, a good number of which were subjected to Canadian import quotas. Furthermore, many of China's marketable products for Canada faced competition from other Third World countries, who often possessed cheaper labour resources, if not superior organizational skills and technical knowhow. Even when the Chinese products were competitive, problems remained in such areas as packaging

161 Based on TABLE 6.
162 Calculated from from TABLE 8.
distribution and marketing in which the Chinese had failed to satisfy the Canadian consumers.\textsuperscript{163}

The most important factor however, was the policy of trade protectionism of Canada which mainly hampered the growth of China's exports to Canada. Since the 1960s, textile goods comprised the bulk of goods shipped from the PRC to Canada. Ironically, since that time, China's textile and clothing trade with Canada had continuously been subjected to restraint through Canada's import quota system. In 1963, China voluntarily agreed to limit exports of a large number of textile and clothing items.\textsuperscript{164} The Canadian Government consistently protected its domestic textile and clothing manufacturing industry from the cheaper foreign imported textiles. This was the salient factor in obstructing China's textile exports to Canada. According to John Curtis:

Textiles and clothing are at present the principal means, apart from Petroleum, by which China can earn foreign exchange to pay for imports. Bilateral trade possibilities are therefore seriously constrained by Canadian policy on the protection of the 'soft' industries such as textiles and clothing.\textsuperscript{165}

The trade protectionist behaviour of Canada towards Chinese exports can be traced back to the early 1960s when China's imports

\textsuperscript{163} Zhao Deyan, Economic and Trade Relations Between Canada and China (University of Toronto-York University, Canada, Working Paper No.24, 1984), p.20.


\textsuperscript{165} John Curtis, "The China Trade", Policy Options (Halifax), Jan-Feb 1982, p.31.
of Canadian wheat were quite large and her exports to Canada quite small. Nevertheless, there had been a strong resentment from the textile manufacturers of Canada to prevent the inflow of cheap Chinese textiles to the Canadian market. They were opposed to any trade that might affect their industries. There were, for example, strident protests in Canada in 1963, at a time when China's exports to Canada amounted to only $5 million. In the 1980s especially increasingly heavy pressure was exerted on the Canadian Government to protect the domestic industries. In September 1982, more than twenty representatives of the clothing and textile industries from the provinces of Manitoba, Ontario and Quebec assembled in Ottawa demanding from the Minister for Trade, for the reduction of clothing import quotas. Such examples are numerous.

As a result of these mounting pressures, the Canadian Government was compelled to protect its domestic textile and apparel industry even at the cost of the Sino-Canadian trade. Consequently, throughout the 1970s and into the mid 1980s, exports of Chinese textiles and clothing had been regulated by a series of bilateral agreements that had required lengthy and often difficult negotiations. Despite Canada's restrictive policies, China's export of textile and clothing rose sharply (25 per cent in 1983 and a further 17 per cent in 1984) to over $200 million by 1985. On the basis of volume, the PRC was Canada's fourth largest supplier of textiles, after Hong Kong, Korea and Taiwan. In comparison to other developed nations, eg. the United States,

Canada's restraint policy had been more lenient, and in relative terms Chinese textiles had better access to Canada than to markets in other industrial countries.\textsuperscript{167}

It is ironical that all along Canada maintained barriers to the major Chinese exports to Canada, but at the same time it had identified China as a priority for its export market. Moreover, its protectionist policies were made to allow Canadian textile and clothing industries to become internationally competitive, but evidence suggested that the success in this direction was only minimal.\textsuperscript{168} On the other hand, the increase in China's textile goods which were exported justified the fact that inspite of Canada's protectionism, the Chinese became more aware of the value of packaging and marketing techniques. Thus it can be said that Canada's protectionist policies had failed to achieve their objectives while it had a positive effect on the overall qualitative nature of China's exports to Canada.

\textbf{China's Trade Deficit}

Since 1960, the PRC had imported more from Canada than it had exported. On the eve of the recognition, the ratio of Chinese imports to its exports to Canada stood at 7:1. Despite China's persistent efforts to reduce the gap, in 1983, after over a decade, the ratio remained the same and China's trade deficit with Canada remained at $1.36 billion. In the next two years, the

\textsuperscript{167} Interview with Robert M. Johnston, Country Program Analyst, CIDA, Canada, October 1989.

\textsuperscript{168} Browney, n.160, p.145.
ratio dropped sharply to a level of 3:1. Nevertheless, China's trade deficit remained $856 million in 1985.\(^{169}\)

Attempts to reduce the deficit had consistently failed. In the 1970s the Chinese deficit jumped from $123 million in 1970 to $715 million in 1979.\(^{170}\) China had strongly and repeatedly indicated its unhappiness over the trade imbalance. Canada failed to import enough Chinese goods to offset this imbalance. The PRC had all along used its trade imbalance as an arguing point in every trade negotiation.\(^{171}\)

An immediate solution might have been the removal of Canadian restraints on exports of textiles and clothing from China. However, Canada kept on protecting its domestic industries. In any case, it was uncertain whether in the absence of restraints on Chinese textiles, China could have increased the volume of her exports to such a high level so as to offset the deficit.

A second option was to maintain the existing 7:1 ratio imbalance, while changing the composition of exported goods to the PRC, to substitute Canadian manufactured goods for wheat. In this case, the problem was that Canada did not want to reduce the existing wheat sales, as it was not sure of its capability to create a market for other commodities in China. China too was not

\(^{169}\) Based on TABLE 6.
\(^{170}\) ibid.
\(^{171}\) Chen Keqiang, Prospects for Canada-China Trade (Speech by the Commercial Counsellor, Embassy of the PRC, Ottawa, to the China Business Seminar, Toronto, 8 December 1986).
eager to buy Canadian manufactured goods, arguing that often these goods were not competitive.172

A third possibility was that of maintaining the status quo, while hoping that with the passage of time, the Chinese might slowly increase their import from the Canadian firms. This was indeed what happened. While the ratio of Chinese imports from Canada to its exports had dropped to 3:1 in 1985, China's annual trade deficit averaged over $1 billion between 1982 and 1985. The share of Canadian wheat in the total Chinese wheat imports had dropped from 93 per cent in 1971 to 64 per cent in 1985. Both the countries had taken initiatives to diversify the commodity composition of their exports. While Canada had channelized its interest towards the export of more end-products to the PRC, the latter had taken keen interest in varying degrees to stimulate the sale of Chinese-made goods in Canada.

CHINA'S DOMESTIC POLITICS AND ITS EFFECTS ON SINO-CANADIAN TRADE

The PRC's internal politics had always affected its foreign trade. During the period of the Cultural Revolution, China virtually isolated herself from the rest of the world and concentrated her energies on internal issues. In the early 1970s led by Zhou Enlai, it reentered the international arena. However, domestic factional struggles between 1972 and 1978 hampered its economic and political standing with other countries. This was reflected in the somewhat disappointing growth in Sino-

172 Discussions with Prof. B.M. Frolic, Department of Political Science, York University, Canada, September-October, 1989.
Canadian trade during this period. The bilateral trade which was worth $309 million in 1972, increased to only $598 million in 1978. The leaders who wanted to expand contacts with the outside world were caught in the midst of a power struggle with those who opposed the pragmatist policy. The outcome was the fall of Deng Xiaoping from power in 1976. The pendulum again swung in the direction of openness to the outside world in the late 1970s, when the pragmatist leadership under Deng Xiaoping, returned to power. As the Chinese themselves put it, the "historic turning point" for the "open door" policy came in December 1978 at the Third Plenary Session of 11th Central Committee of the Communist Party.  

The Communique of the Third Plenum announced that China would be "actively expanding economic cooperation on terms of equality and mutual benefit with the countries," and would be "striving to adopt the world's advanced technologies and equipment". Thus suddenly the door was thrown open for foreign investment and trade, from which Canada benefitted along with China's other trading partners. Canada's exports to the PRC more than doubled between 1978 and 1981 and China's exports to Canada also doubled rising from $95 million to $204 million. 

In the early 1980s, the PRC abruptly cut down foreign investment in the mainland. Major projects were suspended.

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173 For the text of the Communique of the Third-Plenum see, *Peking Review*, vol.21, no.52, 29 December 1978, pp.6-16.

174 See, TABLE 6.
However, Canada was less affected by these trade restrictions than some other countries like Germany, Japan and the United States. Canada was not over ambitious about trading with the PRC. Moreover, it knew that the China market could be volatile and that domestic politics could disrupt China's external trade. By the mid-1980s, China's domestic political situation became relatively stable and its total value of foreign trade reached an all time high of US $69.91 billion in 1985. For Canada in 1985, the China market was fairly safe from the economic and political disturbances of mid-1970s and early 1980s.

Canada-China Trade Council

The change in China's policy towards the outside world in the late 1970s had a far-reaching impact on Sino-Canadian trade. A significant outcome was the establishment of the Canada China Trade Council (CCTC) in 1978 in Toronto by the Department of External Affairs of Canada. Subsequently it opened its office in Beijing. As the cost of exploring the Chinese market was high and the PRC's business philosophy and practices sometimes differed from the Western model, the Council was formed to assist Canadian businessmen to overcome the difficulties in doing business with China. This non-profit organization received generous support from the Canadian Government. In 1985 the Canadian Government offered $6 million to the CCTC for four years to finance its

175 Interview with David E. Lysne, Asia and Pacific Programs Divisions, External Affairs, Canada, September 1989.

176 State Statistical Bureau, China, n.4, p.481.
The China Council for the Promotion of International Trade (CCPIT) is a much older and broader organization in comparison to the CCTC. It was established in 1952 and its initial task was to establish trade ties with the countries having no diplomatic relations with China. It is China's foreign Chamber of Commerce.
and is composed of representatives of China's financial and trade circles, enterprises, associations and societies. It provided its Canadian counterparts with vital trade information and consultancy services. It also acted as a liaison for CCTC.\textsuperscript{181} Thus the roles of both the CCPIT and CCTC have been very significant in the promotion of Sino-Canadian relations.

In 1979, the Canadian Chinese Trade Agreement was revised for the second time and a treaty of Chinese-Canadian Economic Cooperation was signed. The Treaty defined potential Canadian contribution to Chinese economic development in various areas such as light industry, communications, the construction of power stations, petroleum and coal exploration and ferrous and non-ferrous mining projects.

In the same year, the Export Development Council (EDC) of Canada provided a credit worth $2 billion to China. Its main purpose was to make it easier for China to purchase Canadian equipments and services. However, the actual utilization of these credits had been limited. The main reason for this was the lack of competitiveness among the Canadian companies in the face of competition from Japan and other Western countries.\textsuperscript{182}

In January 1980, Canada granted, 'General Preferential Tariff' (GPT) status to the PRC, reducing import duties on Chinese goods, excluding those under restraint by over one-third from the

\textsuperscript{181} Beijing Review, vol.29, no.20, 19 May 1986, p.29.

\textsuperscript{182} Deyan, n.163, p.7.
regular tariff rate. However, since a large number of important Chinese goods were excluded from this arrangement, the actual effects of "preferentials" status were not up to the expectations.183

**Canadian International Development Agency**

In 1981, the Canadian Government designated China as eligible for development assistance funds from the Canadian International Development Agency (CIDA) and earmarked $80 million for China in order to promote trade. From 1982, it helped the PRC to develop its human resources, agriculture, forestry and energy industries. Based on Canada's accumulated experience in working with other Third World countries, the CIDA concentrated its agriculture and forestry projects in the north-eastern provinces of Jilin and Heilong Jiang where the soil and weather conditions are similar to those of Canada. As far as human resource development was concerned, the CIDA worked in transferring Canadian management skills to the PRC. The CIDA contributed immensely in upgrading of technical and managerial skills - a major bottleneck in China's economic development. In the field of energy, specialists from the CIDA have helped the Chinese in better production, utilization and conservation of energy resources. In all these four major areas, Canadian specialists often express their admiration for the progress which the PRC made since 1949, while simultaneously offering advice and assistance so that the Chinese could achieve

183 ibid.
still greater success.\textsuperscript{184} Moreover, closely related to human resource development, many academicians, administrators and technical specialists from Canada along with those from other western countries were engaged in higher education programmes in the PRC.

\textbf{Asia-Pacific Foundation}

China's liberalized domestic policies of the late 1970s, solidified the Canadian realization that the Asia-Pacific Region had the fastest growing economy in comparison with other regions of the world. Thus, apart from the Canadian Governments' direct investment in trade with the PRC, it joined hands with the private corporations in Canada in creating the Asia-Pacific Foundation of Canada in June 1984. The major objective of this Foundation was to initiate popular support in Canada for greater Canadian participation in the economy of the Asia-Pacific Region and to promote Canadian trade in this region.\textsuperscript{185} The Foundation actively devoted itself to the task of gathering information and promoting understanding about the countries in the Asia-Pacific region. Both China and Japan have received a fair share of attention from the Foundation, since 1985 it has been publishing a business quarterly journal, the \textit{Asia Pacific Business} from Vancouver. Useful information about China has been made available to the readers through this quarterly.


\textsuperscript{185} Asia Pacific Foundation of Canada, \textit{Annual Report 1985} (Vancouver, 1985), pp.3-6.
The Federation of Canada-China Friendship Association which was established in 1960 also aimed at promoting better understanding of China. Its major activities included the publication of the Canada-China Journal, organizing tour groups to China, and the operation of a Friendship Association. Its members had shown their goodwill towards the Chinese. The PRC also showed to its people the better side of the Canadian character.

Concurrent with the developments analysed above, particularly since 1970, frequent visits have been exchanged between the different departmental heads of the Governments, high-ranking officials and group representatives from the two countries in an effort to promote the progress of Sino-Canadian economic and political relationships. It would be correct to state that with the establishment of diplomatic recognition in 1970 and China's opening up towards the West in 1979, Canada and China tried to take advantage of the situation, making the Sino-Canadian relations more strong. To sum up, it would suffice to say that Sino-Canadian relation is a fine blend of economic and political variables.

186 Woodsworth, n.131, p.22 & p.28.