Trade With China

SAMUEL P.S. HO and RALPH W. HUENEMANN

With foreign trade (imports and exports together) measuring nearly 50% of Canada's G.N.P., Canadians have an understandable interest in the health of the foreign trade sector. The recent American surcharge on imports and Britain's expected entry into the Common Market have caused considerable concern about future patterns of trade with these traditional partners, thereby stimulating interest in alternative markets. Coinciding with these developments, the People's Republic of China, after a period of semi-isolation during the Cultural Revolution, has shown a renewed interest in its international relations. (The successful negotiations in Stockholm that led to the establishment of diplomatic relations between Canada and China on October 13, 1970, are one indicator of this renewed interest.) Also the Chinese are at the beginning of their fourth Five Year Plan, which is a natural time for them to reconsider their economic policies, including the pattern of their foreign trade. Hence, this seems a particularly appropriate time to discuss the prospects for Sino-Canadian trade.

Our discussion will be organized in the following fashion. First, we will describe the role that trade plays in a centrally-planned economy and the institutions that govern China's external trade. We then examine the question of trade potential and the national policy issues that are related to this question. We will conclude by discussing the impact on British Columbia that might result from an expansion of Sino-Canadian trade.

China is a centrally planned economy. Consequently, the volume and composition of its foreign trade are determined by factors substantially different from those operating in a market-oriented economy such as Canada's. Canadian decisions to import or export are presumably determined by calculations of probable profits, based on market prices. In China, by contrast, production and trade decisions are based on centralized planning, where prices and profits play a less apparent role.

Relatively little is known about Chinese planning but it appears that it is similar to the "material balances" planning that is practiced in the Soviet Union. Material balances planning is an administrative device to

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equate supply (domestic production, imports, and decreases in inventories) and demand (final consumption, intermediate uses, increases in inventories, and exports) of key commodities. Put simply, the system of material balances plays a similar role to the market mechanism, in that it aids in the allocation of resources. The process of planning begins some months before the period of the plan, with the central planning agency distributing a set of targets to various ministries, which then communicate a set of subsidiary targets to the production enterprises they control. On the basis of these preliminary targets, the enterprises calculate input requirements and submit their estimates to the planning agency through the ministries. At this stage, the central planners strike a material balance. The planners resolve the inconsistencies revealed by the material balances by re-negotiating with lower level units and by turning to foreign trade. This process is necessarily time-consuming, and it is not uncommon for the plan to be finalized after the plan period has begun. In general terms, then, the function of imports will be to relieve bottlenecks, and that of exports, to finance these imports. The specific commodity composition of imports and exports is of course influenced by the specific bottlenecks and surpluses indicated by the material balances.[1] Of course, the fact that China's decision-making *process* is different from that in a market economy does not necessarily mean that the *results* will be substantially different in the short run, since the production structure and resource endowment are relatively fixed.

Diagram 1 depicts the major trade institutions in China and the relationships between them and with other relevant government organizations. The most important of these institutions is the Ministry of Foreign Trade. It helps to formulate and implement the trade plan, conducts commercial negotiations, enforces quality standards on imports and exports, and administers the collection of import duties. (It should be realized, of course, that China's tariffs play no role in determining the direction or volume of trade. Rather, they are maintained for bargaining purposes.)[2] The China Council for the Promotion of International Trade, although nominally a non-governmental body, was established by the Chinese government to serve as a vehicle for trade with non-socialist countries, especially those having no diplomatic relations with Peking. It sends trade missions abroad, and has negotiated trade agreements. From

[1] Audrey Donnithorne, *China's Economic System* (Praeger, New York, 1967), 323.

[2] The Chinese maintain two sets of tariffs — one for countries that give China most favoured nation tariff treatment and a set of higher tariffs for other countries.

the Canadian businessman's paint of view, the CCPIT performs the important function of arbitrating commercial and maritime disputes.

The institutions with which a Canadian businessman will have direct contact are the seven trading corporations. Under the supervision of the Ministry of Foreign Trade, these trading corporations implement the trade plan by entering into specific contracts with individual trading partners, domestic and foreign. They are, in essence, middlemen.

There are two important instruments used by the Chinese in conducting their foreign trade: trade agreements and contracts. Contracts are instruments familiar to a Canadian businessman, but trade agreements may require further explanation. Trade agreements can be concluded between either governments or non-governmental groups. Although trade can be carried on in the absence of a trade agreement, the agreement makes it easier for the planners to do their job. The Chinese have concluded very few commercial treaties with countries outside the socialist group, and therefore trade agreements not only deal with specific problems but also cover general issues such as most-favoured-nation treatment, establishment of trade missions, etc. On a more specific level, the trade agreement may cover the desired volume of trade, commodities to be traded, currency of payment, method of determining prices, and terms of delivery. Usually these agreements are on an annual basis, but some have encompassed longer time periods. It should be noted, however, that a trade agreement is only a statement of intent, to be confirmed by operational contracts between the state trading corporations and foreign firms.

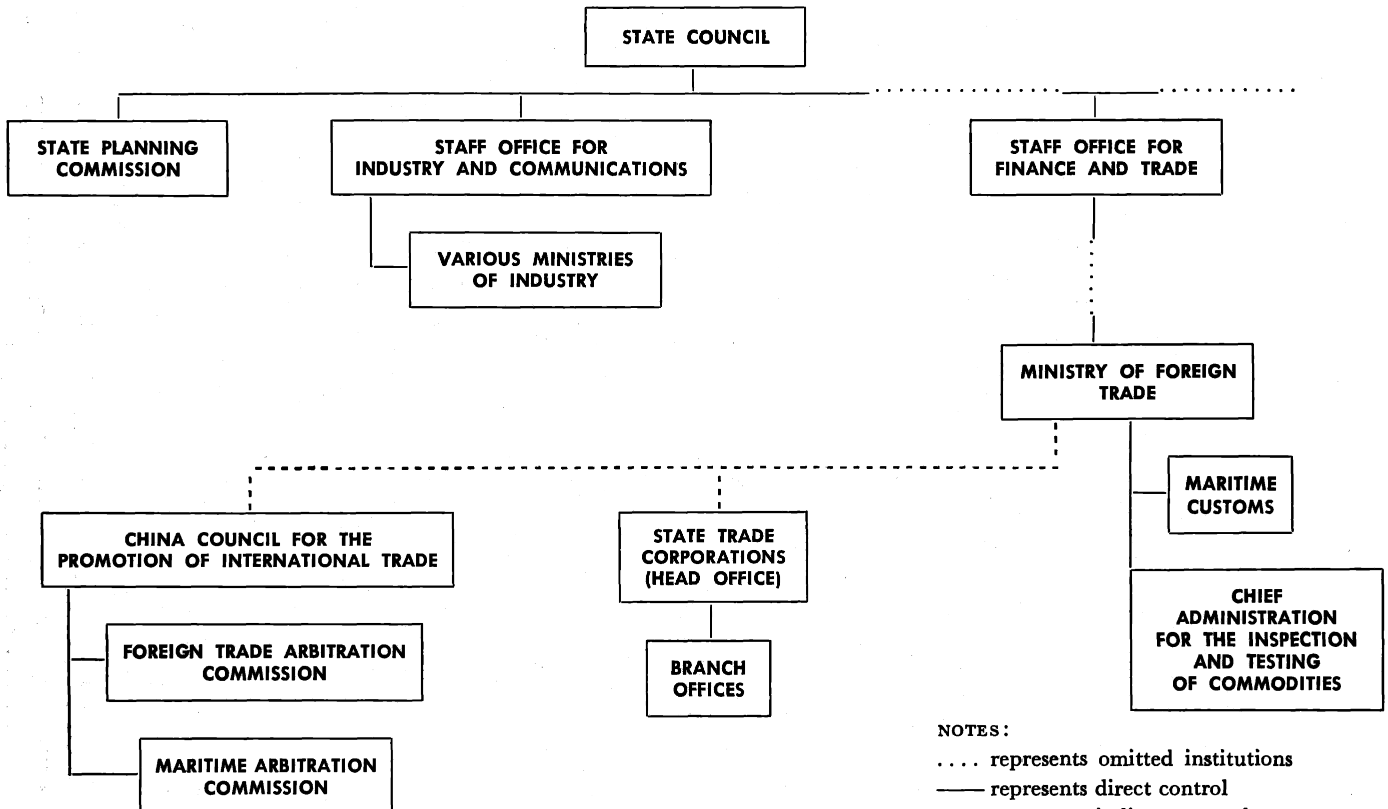
One of the items often included in contracts and trade agreements that may be of particular interest to Canadian businessmen is a provision for the arbitration of disputes. When disagreements arise, the Chinese have shown a definite preference for informal conciliation and mediation, which is often a time-consuming process. As a last resort, they will turn to arbitration. In such a case they prefer arbitration by a Chinese body, the Foreign Trade Arbitration Commission — but this point is negotiable, as contracts have been signed in which third-country arbitration is stipulated. From a Canadian's point of view, it may make sense to accept arbitration by FTAC, since it is speedy and inexpensive. Furthermore, the evidence suggests that FTAC has dealt with a large number of disputes without any instance of foreign complaints of unfairness.[3]

Historically, Sino-Canadian trade has not been very important to either country. In the 1920's and 1930's, Canada's share of China's foreign

[3] Victor H. Li, "Legal Aspects of Trade with Communist China," *Columbia Journal of Transnational Law*, Vol. 3, No. 1-2, 70-71.

DIAGRAM 1

CHINA'S TRADE ORGANIZATION



NOTES:

.... represents omitted institutions

—— represents direct control

- - - - represents indirect control

trade was never more than two per cent and was usually less than one per cent. In the same period, China's share of Canadian trade was also in the one to two per cent range.[4] It's interesting to note that at that time Canada's main exports to China were wheat, wheat flour, and timber, while China sent Canada walnuts, peanuts, and handicraft items like silk embroidery. With one or two exceptions, to be discussed below, this pattern is very similar to the one that exists today. Another similarity to more recent patterns is that in every year from 1916 to 1932 the trade balance was consistently in Canada's favour.

Table I presents the trade developments of recent years. The first point of interest is that until 1961 the volume of trade was minuscle.[5] In this period, the main export commodities were chemical fertilizers, nonferrous metals, and (in one year) wheat. The main import items were nuts and furs. Successive Canadian governments, concerned with the increasing grain surpluses on the prairies, had been trying to sell wheat to China, but had had little success until December 1960, when a Chinese trade mission bought $60,000,000 worth of wheat for cash.[6] Prior to 1961, less than three per cent of China's total imports were foodstuffs. But three successive years of bad crops (1959-1961) forced the Chinese to alter their priorities, and in 1961 food imports shot up to about 33% of China's total purchases from the rest of the world. Further Canadian sales were facilitated in 1961 when the Diefenbaker government agreed to guarantee short-term credit extended to the Chinese by the Wheat Board.[7] Since then, wheat has of course been the dominant factor in Sino-Canadian trade. (Wheat accounted for 92.7% of sales to China over the decade from 1960 to 1969.) Because of the wheat sales, the trade balance has been overwhelmingly in Canada's favour.

Although the composition of imports from China is similar in many

[4] Ping-yin Ho, "A Survey of Sino-Canadian Trade," *Chinese Economic Journal*, February 1934, 141.

[5] The following discussion excludes trade with Taiwan. In 1970, Canadian exports to Taiwan totalled $18.3 million, while imports from Taiwan amounted to $51.9 million. Thus in 1970 total trade with Taiwan was 43% of the value of Canada's total trade with the People's Republic of China.

[6] At the end of 1960, China was estimated to have held 415 million U.S. dollars in foreign exchange reserves.

[7] In April 1961 the Chinese agreed to purchase wheat worth 326 million dollars on credit which was guaranteed by the government. The Chinese paid a down-payment of 25% with the balance due in 273 days. That Canada was selling on credit to a communist country was not new since in 1955 wheat was sold to Poland on credit guaranteed by the government. In fact, the terms to the Poles were more liberal than those extended to the Chinese — 15% down with balance due in 12 months — a fact that irritated the Chinese.

TABLE I

SINO-CANADIAN TRADE, 1929, 1954-1970

(Canadian $000,000)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	CANADIAN EXPORTS			CANADIAN IMPORTS				
Years	*Total*	*Wheat*	*Others*	*Total*	*Food Stuffs*	*Textiles & Textile Products*	*Others*	*Export Surplus*
1929	24.81	17.86	6.95	1.39	n.a.	n.a.	n.a.	23.42
1954	0.70	—	0.70	1.62	1.29	0.01	0.32	—1.55
1955	1.02	—	1.02	3.12	1.71	0.21	1.20	—2.11
1956	2.43	—	2.43	5.72	3.30	0.32	2.10	—3.29
1957	1.39	—	1.39	5.30	3.43	0.26	1.61	—3.91
1958	7.81	6.99	0.82	5.37	2.33	1.24	1.80	2.43
1959	1.72	—	1.72	4.84	2.53	1.00	1.31	—3.12
1960	8.74	—	8.74	5.64	3.15	0.87	1.62	3.10
1961	122.84	91.80	31.04	3.23	1.43	0.90	0.90	119.61
1962	147.44	134.25	13.19	4.52	1.62	1.17	1.73	142.92
1963	104.74	103.00	1.74	5.15	1.92	1.40	1.83	99.59
1964	136.26	116.72	19.54	9.37	2.49	4.20	2.68	126.89
1965	105.13	104.62	0.51	14.44	2.81	6.04	5.59	110.68
1966	184.88	182.82	2.06	20.59	3.71	9.19	7.69	164.28
1967	91.31	89.19	2.12	25.07	3.18	12.73	9.16	66.23
1968	163.24	157.74	5.50	23.44	3.21	12.01	8.22	139.80
1969	122.42	119.78	2.64	27.42	4.16	13.25	10.01	95.00
1970	141.99	121.56	20.43	19.03	3.61	9.84	5.58	122.96

NOTES: — nil
n.a.: not available

SOURCES: The 1929 figures are from Ping-yin Ho, "A Survey of Sino-Canadian Trade," *Chinese Economic Journal,* February 1934. Figures for all other years are compiled from Dominion Bureau of Statistics, *Exports by Commodities* (65-004) and *Imports by Commodities* (65-007), various years.

ways to that of the 1930's, one significant difference is the increasing importance of light manufactured goods, especially textiles. In part this reflects China's increasing industrial capacity, but it also reflects a decision by the Canadian government to permit such imports. One suspects that this decision was influenced in part by the rising wheat sales.

Trade with China has always excited the imagination of traders because of China's immense population. Such expressions as "oil for the lamps of China" and "aspirin for the headaches of China" have reflected these hopes.[8] But for various economic reasons (China's low per capita income and its diverse domestic economy), one would not expect a dramatic increase in China's foreign trade. In addition, China's trade growth is constrained by its political desire to be self-sufficient.[9] For any reasonable projection of China's trade growth, we believe that China's current trading partners can continue to supply China's imports and absorb China's exports with ease — with one exception: Chinese textiles. Therefore any dramatic increase of Sino-Canadian trade will require energetic marketing efforts (if Canada is to displace current suppliers).

Because Canada was the first major country to recognize the People's Republic of China since French recognition in 1964, and because Canada played an important role in bringing Peking into the United Nations, Canadians have felt that they have a special political relationship with China. Chinese actions (such as the special courtesy extended to Canadians visiting the most recent Canton Trade Fair and the speed with which the Canadian request for a solo trade exhibition was granted) have indicated that this feeling is at least partly justified. It is therefore interesting to speculate whether this political goodwill is likely to benefit Canada economically. The Chinese have stated explicitly on numerous occasions that politics and economics are intertwined, and indeed that "politics should take command."[10] In some cases, the Chinese have been prepared to accept substantial economic costs in order to pursue important political goals. (Both the Sino-Soviet break and the fluctuations of trade with Japan could be considered examples). But when political issues are of secondary importance, the Chinese appear to make their trade decisions on the basis of very careful cost comparisons. Thus, a substantial part of China's trade with non-socialist countries has been with countries that have not recognized Peking.

[8] This sentiment is echoed in a recent remark by Phil Gaglardi, B.C. Minister of Rehabilitation and Social Improvement. He said, "If 750 million Chinese could be persuaded to use toilet paper, that would use up most of all our pulp supplies and boom the pulp industry in B.C." (For a paraphrased report, see the *Vancouver Province*, July 9, 1971, 5).

[9] In recent years, as a result of the Cultural Revolution, there exists an intensive emphasis on "do-it-yourself" at all levels of the economy. For a description of this effort see Jack Chen, "Taking Off on a Tricycle," *Far Eastern Economic Review*, No. 36, September 4, 1971, 26-28.

[10] The Canadian government is of course quite aware that in the case of China politics and trade are related. For example, in a recent Senate hearing M. Pepin said, "I do not think that one can always divide politics and trade too clearly ... The Chinese do not divide the two, so we had better not either." (The Senate of Canada. *Proceedings of the Standing Senate Committee on Foreign Affairs*, September 22, 1971).

To an extent, Canada has already benefited from the political goodwill that currently exists between the two countries. For example, Canada has recently reached the following three agreements with China: (1) China is to look first to Canada as a supplier of wheat; (2) annual consultations on trade will be held, focusing on trade prospects for the next year; and (3) Canada has been granted a solo trade fair in Peking in August 1972.[11] The significance of these agreements is, on the one hand, that they were reached quite rapidly and, on the other hand, that other countries have sought similar arrangements without obtaining them. However, it is important to realize that these agreements may not have a significant impact on the size of trade, since Canadian products must still compete with products from other countries. (In particular, Richard Nixon's recent decision to permit U.S. companies to trade with China creates the possiblity that Canadian firms will someday face strong competition from south of the 49th parallel. For the moment, however, the Chinese are saying that they do not wish to trade with America so long as the Taiwan issue is unresolved. This does not necessarily mean that China will refuse to deal with the Canadian subsidiary of an American firm. See our discussion below.)

On both political and economic grounds, there is every reason to believe that Sino-Canadian trade will not grow dramatically. However, even though the agggregate effect of trade growth may be modest, the impact on particular industries can be quite important. A crude way to identify the sectors of the Canadian economy that might be affected is to examine the current composition of China's imports and exports. Table II presents a summary of the data for 1969. Accepting the 1969 figures as an indication of China's import needs in the near future and using the detailed data that lie behind Table II, we have identified in a preliminary way some potential Canadian export items. These are presented in Table III, classified into three groups according to the degree of difficulty they are likely to encounter in penetrating the China market. For various reasons, including our assessment of China's probable agricultural performance in the near future, we believe that Canadian wheat sales to China are not likely to expand. Therefore any growth in Canadian exports will probably occur in other commodities. On the import side of the market, the items that China seems well suited to supply to Canada consist primarily of foodstuffs, textiles, and other relatively unsophisticated consumer goods.

Trade with China raises a number of issues. Most basic is the question of whether any trade at all should be permitted. For every trading nation,

[11] *Ibid.*

TABLE II

COMPOSITION OF CHINESE TRADE WITH NON-SOVIET BLOC COUNTRIES, 1969

	(1) *IMPORTS* *(000 US $)*	*(2)* *IMPORTS* *(% of Total)*	*(3)* *EXPORTS* *(000 US $)*	*(4)* *EXPORTS* *(% of Total)*
Total	1,428,086	100.00	1,735,873	100.00
Foodstuffs	291,411	20.40	473,277	27.26
Wheat	229,953	16.10	—	0.00
Others	61,458	4.30	473,277	27.26
Beverages and Tobacco	120	0.01	19,722	1.14
Crude Materials, Inedibles Except Mineral Fuels.	256,245	17.94	350,953	20.22
Textile Fibers	86,012	6.02	110,956	6.39
Others	170,233	11.92	239,997	13.82
Mineral Fuel, Lubricant, And Related Materials	1,818	0.13	11,476	0.66
Animal and Vegetable Oils And Fats	6,545	0.46	15,689	0.90
Chemicals	244,361	17.11	75,753	4.36
Organic Chemicals	135,169	9.46	9,355	0.54
Inorganic Chemicals	20,435	1.43	11,502	0.66
Manufactured Fertilizers	49,313	3.45	11	0.00
Others	39,444	2.76	54,885	3.16
Machinery	79,101	5.54	21,419	1.23
Nonelectric Machinery	63,012	4.41	10,621	0.61
Electric Machinery and Appliances	12,089	0.85	9,106	0.52
Others	4,000	0.28	1,692	0.10
Transport Equipment	19,541	1.37	4,778	0.28
Road Motor Vehicles And Parts	13,319	0.93	78	0.00
Others	6,222	0.44	4,700	0.27

	(1)	(2)	(3)	(4)
	IMPORTS		EXPORTS	
	(000 US $)	(% of Total)	(000 US $)	(% of Total)
Manufactured Goods	497,036	34.80	542,314	31.24
Textiles, except Clothing	26,768	1.87	250,536	14.43
Clothing and Footwear	125	0.01	64,651	3.72
Iron and Steel and Semi-manufactures	237,022	16.60	15,779	0.91
Non-ferrous metal and Semi-manufactures	116,628	8.17	33,480	1.93
Others	116,493	8.16	177,868	10.25
Others	31,908	2.23	220,492	12.70

NOTES AND SOURCES: China's two-way trade with non-communist countries was 79.8 per cent of its total trade in 1969. This table is compiled from unpublished data provided by the U.S. Department of Commerce.

there is the dilemma of whether or not to trade with countries that are perceived to be potential enemies. As one extreme is the policy of total embargo; at the other extreme is the policy of trading in all commodities except weaponry. For many years, of course, the United States vigorously pressed a complete embargo on trade with China, and some Canadians have expressed agreement with this policy.[12] However, we believe that such a policy is inappropriate for a wide variety of reasons. First, trading brings economic benefits to both parties; therefore a restriction on trade imposes costs on both. Such costs must be balanced against the possible non-economic gains. Second, unless most other countries are prepared to cooperate in an embargo the presumed non-economic benefits are greatly reduced while the economic costs remain. Third, the contacts and mutual benefits of trade may contribute to a reduction of the original political tensions. In the light of these considerations, we support Ottawa's effort to promote non-strategic trade with the People's Republic of China.

Although China has never insisted on bilateral balance in its trading patterns, it is clear that the Chinese view trade as a two-way street.[13]

[12] For example, see Peyton V. Lyon, *Canada in World Affairs 1961-1963* (Oxford University Press, Toronto, 1968), 426.

[13] See Peyton V. Lyon, *Ibid.*, 424-425 and the Senate of Canada, *op. cit.*

TABLE III

POTENTIAL CANADIAN EXPORTS TO CHINA PRELIMINARY LIST BY COMMODITY GROUPS, 1969 DATA

	(1) Chinese Imports From Non-Soviet Countries (000 U.S. $)	(2) Total Canadian Exports (000 Can. $)
Group I		
Wheat	229,953	472,720
Pulp and Wastepaper	4,764	813,018
Paper and Paperboard	5,331	1,226,945
Platinum and Platinum Group Metals	49,778	2,974
Copper Metal and Semi-manufactures	84,795	300,903
Nickel Metal and Semi-manufactures	4,279	226,079
Aluminum Metal and Semi-manufactures	4,683	474,751
Zinc Metal and Semi-manufactures	7,604	76,849
Lead Metal and Semi-manufactures	12,059	28,393
Iron and Steel Scrap	3,338	23,158
Group II		
Wood, Rough or Simply Shaped	768	743,168
Oilseeds, Oil nuts and Kernels	4,597	94,797
Group III		
Chemicals, Inorganic and Organic	148,604	441,153[a]
Chemical Fertilizer	49,313	174,917
Agricultural Machinery and Implements	1,413	179,714
Construction and Mining Machinery	2,658	63,923
Lifting and Loading Machinery	1,513	58,693
Telecommunications Apparatus	1,480	97,038
Electric Measuring and Controlling Instruments	4,267	83,352
Motor Vehicles and Parts	13,319	3,500,673
Iron and Steel and Semi-manufactures	237,022	341,489[a]
Professional and Scientific Instruments and Apparatus	11,589	14,565[a]

a for 1968

NOTES AND SOURCES:

Group I: Commodities in which Canada is competitive

Group II: Commodities in which Canada is competitive, but entry to China market appears restricted for non-economic reasons

Group III: Commodities in which Canada faces stiff competition

Therefore if Caanda wishes to export more it must be prepared to consider buying more from China. An examination of the trends in China's export composition and production capacity in recent years (for 1969 export data, see Table II) indicates that textiles and other light manufactured goods constitute the sector in which China may be best able to expand output for exports. This presents a real dilemma to Ottawa, since these are precisely the areas in which domestic Canadian producers, in the face of strong competition from foreign suppliers, have obtained special protection against all imports. Clearly, the textile industry has long been worried about the prospect of Chinese competition. After the major wheat sale in July 1963, a Montreal textile manufacturer asked: "How long must we subsidize fat prairie farmers by surrendering jobs in Quebec and Ontario?"[14] Ottawa has attempted to allay these fears by stressing that (1) in recent trade discussions, the Chinese Trade Minister assured M. Pepin that "the Chinese did not wish to disrupt Canadian industry and unemploy Canadian workers,"[15] and (2) in general, the Chinese have not fully used the quota limits available to them.[16]

However, the dilemma remains. While it is true that, in the years immediately after quotas were applied, Chinese textile imports remained significantly below the allotted quota levels, more recently in many of the quota categories they are very close to the limit. (These quota limits are a tiny share of Canada's total quota on textile imports.)[17] More relevant, perhaps, is not what has happened but what is likely to happen in the near future. Over the past two decades, the most significant change in China's export composition has been the growing role of textiles, and most students of the Chinese economy believe that this trend is likely to continue. Current markets for Chinese textiles are unlikely to grow fast enough to absorb these increased textile supplies, either because the importing countries are developing their own textile industry (the case of many of the less-developed countries) or because protectionist sentiment is rising (the case in many of the more advanced countries). This suggests an increasing Chinese interest in selling textiles to Canada. If Ottawa wants to accom-

14 *The Financial Post,* August 10, 1963, 2.

15 The Senate of Canada, *op. cit.*

16 Prior to 1964 Canada restricted imports of Chinese textiles "through the simple expedient of using U.S. prices for setting customs valuation ... (which) meant that, technically, Chinese textiles almost always could be slapped with a dumping charge, thus pricing them out of our market." (*The Financial Post, op. cit.*).

17 Because the quota levels (voluntary restraints applied by the exporting countries) are not classified in the same way as the trade data, we had to match the products under quota with actual imports. It is uncertain whether our matching was always successful.

modate Peking on this point, it will either have to (1) increase the overall quotas (a move which the domestic producers are unlikely to welcome), or (2) reallocate the current quotas to give China a larger share. But the latter is not an easy solution either, since the major foreign supplier of textiles is Japan, and Canada already has a favourable balance of trade with Japan.[18]

The last issue relating to Sino-Canadian trade that must be dealt with at the national level is extra-territoriality, the problem of American rules governing U.S. controlled firms in Canadian industry, especially manufacturing.[19] The limited scope and length of this paper prevents a detailed analysis of this question, but the major issues can be summarized as follows: Until December 23, 1969, American-controlled Canadian firms were effectively prevented from any economic transactions with the People's Republic of China by the U.S. Foreign Assets Control Regulations. This meant that many Canadian firms, because of their American affiliations, stopped considering China as a potential trading partner, and in some headline-making instances these rules apparently prevented transactions that the Chinese initiated.[20] Since the end of 1969, American-controlled Canadian firms have been permitted to trade with China, subject to the following constraints:[21]

(a) they may not re-export U.S. products or unpublished technology;

(b) they may not export any "foreign-made direct product of U.S. origin unpublished technology, if the product, were it exported from the United States, would require a validated export licence to Poland and Romania;" and

(c) they may not export commodities containing U.S.-made components.

Canadian firms wishing to export these restricted items may do so only if their parent company has first obtained authorization from the U.S.

[18] In 1970 Canada had a trade surplus of 211.36 million dollars with Japan.

[19] The view of the American government is that such rules are not an infringement of Canadian sovereignty since the only direct effect is on the U.S. parent company.

[20] For some examples of this see *New York Times* March 28, 1958, 13 and May 2, 1959, 7; and James J. W. Corcoran, "The Trading with the Enemy Act and the Controlled Canadian Corporation," *McGill Law Journal*, Vol. 14, No. 2, (1968) 174-208.

[21] U.S. Department of Commerce, Bureau of International Commerce, Office of Export Control, *Export Control Bulletin*, No. 16, April 7, 1970, 2. In some instances, Canadian firms with no U.S. interest may also be affected by these export control regulations.

Office of Export Control. The U.S. government, however, has not indicated explicitly the criteria used to grant such authorization, except that in the case of U.S.-made components they have indicated the following guideline: "Requests for such authorization are likely to be approved when the foreign-made product is of the type that does not require a validated licence to be exported from the United States to the U.S.S.R. and other Eastern European destinations . . . "[22]

The effect of the current U.S. regulations on Sino-Canadian trade is unclear, in part because of the ambiguity of the regulations. What is clear is that the only transactions by an American-controlled firm that run no risk of violating the American regulations are those which involve no U.S. components or controlled technology. An additional complication is that the Chinese have expressed reluctance to trade with any company with American financial interests.[23] During M. Pepin's recent visit to Peking, a substantial amount of time was spent discussing this issue. The outcome was that the Chinese agreed to "look at each difficult case on a case-by-case basis."[24] Officials in Ottawa are well aware of these areas of disagreement with both Washington and Peking. Relaxation, or at least clarification, in these disputed areas would be a useful first step toward an expansion of Canadian exports of manufactured commodities, and we believe that Ottawa should continue to press in this direction.

In the light of the preceding discussion of the import and export commodities that are likely to figure heavily in any expansion of Sino-Canadian trade, it seems that — of the various Canadian provinces — British Columbia stands to gain substantially more than average from any growth of the China trade. On the export side, the commodities that we identified in Table III as prime candidates for growth are, in many cases, important B.C. products. Table IV is designed to show, in rough orders of magnitude, the role that B.C. plays in Canada's production of these items, and the degree to which B.C. producers are already participating in world trade. In particular, pulp and paper, copper, aluminum, zinc, and lead would seem to be sectors of promise from B.C.'s point of view. In fact, the first (token) sale of B.C. wood pulp to China was announced in April,[25] and in July a small shipment of aluminum was sent from Kitimat.[26] The producers are hopeful, of course, that other sales will follow. (To an ex-

22 *Ibid.*

23 *Business Week*, October 30, 1971, 76.

24 The Senate of Canada, *op. cit.*

25 *Vancouver Province*, July 14, 1971, 15.

26 *The New York Times*, August 1, 1971, 7.

tent which is difficult to measure, China may already be buying B.C. minerals indirectly when it buys metals from Japan and England. To this extent, prospects for further sales to China are correspondingly diminished.)

TABLE IV

CANADIAN OUTPUT, B.C. OUTPUT, AND B.C. EXPORTS OF CERTAIN COMMODITIES, 1969

($000,000)

	(1) Canadian Output	(2) B.C. Output	(3) Exports Of B.C. Ports (c)
Wheat	$1,322[a]	—	$252
Pulp and Paper	2,771	$651	452*
Platinum	31	—	—
Copper: Ores, Metal, Semi-manufactures	588	112	125*
Nickel: Ores, Metal, Semi-manufactures	481	3	18
Aluminum: Metal, Semi-manufactures	582	139[d]	88*
Zinc: Ores, Metal, Semi-manufactures	368	47	22*
Lead: Ores, Metal, Semi-manufactures	97	34	22*
Iron and Steel Scrap	ca.200[b]	na	1*

NOTES:
a Crop year 1969-70, valued at estimated Vancouver f.o.b. price.
b 1968 data.
c *not* net of transshipments.
d estimated from data for shipments from Kitimat.
— negligible or nil.
na not available.
* indicates that exports originate principally in B.C.

SOURCES: DBS, *Grain Trade of Canada, 1969-70*, (#22-201)
DBS, *Pulp and Paper Mills, 1969*, (#36-204)
DBS, *Smelting and Refining, 1969* (#41-214)
DBS, *Scrap Iron and Steel, 1968*, (#41-212)
Gov't of B.C., Dept. of Industrial Development, Trade and Commerce, *British Columbia Minerals: Production and Trade*, 1970.
Gov't of B.C., Dept. of Industrial Development, Trade and Commerce, *External Trade, 1969, Through British Columbia Ports.*
Gov't of B.C., Dept. of Industrial Development, Trade and Commerce, *1970 Summary of Economic Activity in British Columbia.*
Aluminum Company of Canada, Ltd.

The economy of B.C. is often described as a mining and lumber camp *cum* hydroelectricity, and our discussion of potential exports to China has thus far perhaps served to reinforce this image. However, the largest single sector in the B.C. economy is the service sector, and therefore it seems appropriate to ask how these intangibles might enter the China trade. Tourism is not likely to become important, but the provision of transportation and handling services is already fairly significant (particularly in the case of wheat). A decade ago, it was estimated that Vancouver earned about $7.50 in wages and handling charges for every ton of grain shipped through the port.[27] The methodology used in making these calculations is open to criticism, but the results can perhaps serve as a useful reminder that not all foreign trade has to involve a tangible commodity.

Currently, because of the large Chinese community in the greater Vancouver area, B.C. is already a significant market for traditional Chinese foodstuffs. Thus, over the years, many commercial links between Vancouver merchants and Chinese agents in Hong Kong have developed. The existence of these links may facilitate further Chinese exports to B.C. Most of the likely exports (such as textiles) do not threaten local B.C. producers: rather, they might make a marginal contribution to the well-being of B.C. residents by lowering the cost of living.

Thus, in terms of both imports and exports, our assessment of the impact on B.C. of increased Sino-Canadian trade is that it will be beneficial — but not very large. The beneficial nature of this potential impact is not surprising, since it is what theoretical trade models predict. That is to say, many of the events we have been discussing (relaxation of American constraints, increase in political good will, etc.) are analytically similar to tariff reductions. In classical trade theory, the imposition of tariffs is expected to shift domestic income distribution in favour of relatively scarce factors of production, with the removal of tariffs having the opposite effect. Even without any precise empirical information on relative factor endowments, we feel confident that the Chinese economy is relatively labour-intensive, while the Canadian economy is relatively resource-intensive. Thus increased foreign trade would be expected to benefit resource-based industries like B.C.'s, while threatening labour-intensive industries like textiles in Quebec.

27 *Vancouver Province*, May 3, 1961, 1. The $7.50 figure represents the direct payments to Vancouverites working in shipping: wages, fees, etc. Therefore, at full employment this estimate *over*states the benefit to B.C., because it ignores the opportunity cost of these resources. But in a situation of significant unemployment, this estimate *under*states the benefit, because it ignores possible multiplier effects.