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Marcus -1-

Sobin: I am Julian Sobin and I am in New York with Mr. Stanley Marcus of Neiman Marcus or Neiman Marcus, part of Carter, Hawley, Hale.

Marcus: Yes, we are an autonomous subsidiary of Carter, Hawley, Hale of California.

Sobin: Which was Broadway Hale at one time.

Marcus: It was Broadway Hale and now Carter, Hawley, Hale named after three of its principals with divisions in Los Angeles where Broadway Stores do the largest retail volume in the Los Angeles area. The Emporium division in San Francisco does the largest in San Francisco Bay Area; Walden Books, the largest single book seller in the nation. And the Neiman Marcus group, the largest group of stores in Canada, Holt Renfrew and Bergdorf Goodman in New York.

Sobin: I had no idea the extent of it, that panoply of splendor of all the stores you have everywhere. You were at the very first fair attended by Americans in the spring of 1972, weren't you, Stanley?

Marcus: That's right.

Sobin: How did you get that invitation do you think?

Marcus: By talking to anybody and everybody who would listen to me about China and I mean anybody. I talked to a Pakistani Trading Company. I tried to talk to the Chinese and I wrote, I think, 18 letters to Ottawa and never got an answer to one of them. Finally one day a fellow called me up and he said, "Are you interested in China? I've started a



trading company and we represent a large number of American companies selling to China and we thought it might be a good idea to have you, if we could do something for you." I said, "Well, I wouldn't trust you to buy anything for our stores." He said, "Oh I don't mean to buy for you but I think we can get you into China and you do your own buying. And it will give us somebody who has a chance to buy something and so from that point of view you would be useful to us." And I said, "O.K." This was the week before the Fair opened. The day the Fair opened I received a telegram saying you have received an invitation. Proceed at once to Hong Kong to pick up your ticket. I said, "I want something more than that." I said, "I want something official." He said, "You'll have to take my word." So I gambled on it and my wife and I flew to Hong Kong. We went to the China Tourist Bureau; our tickets were there and we were in China the next day.

Sobin: Incredible. Were you intellectually interested at first or were you commercially interested or a combination of both?

Marcus: It was a combination of both. I had a long, long interest in China and great respect and as anyone who has ever studied Chinese history and art must have and I also believed at the time that America was hungry for anything that was



Chinese and that belief was proved out when we brought the first things in from China. We had almost a sellout within five hours of opening our collection.

Sobin: If I remember correctly the rumor had it that you bought some pretty fancy Mandarin robes and things like that, didn't you?

Marcus: I bought every fine quality Mandarin court robe that there was for sale.

Sobin: Isn't that amazing!

Marcus: You may be interested in a little story connected with this. I went up to the Canton Trade Fair and I asked the Director, or the man who had been assigned to me, I said, "I would like to see some antique robes." "Well," he said, "we don't have any antique robes." And I said, "Well, I'm sure you must have them." And he said, "Well, they are too expensive." and I said, "What do you mean they are too expensive?" "Who said so?" "Well," he said, "Macy buyers said so."

Sobin: I'll be darned.

Marcus: I said, "Let me be my own judge."

Sobin: He hadn't heard of Neiman Marcus, had he?

Marcus: Oh, listen, Neiman Marcus was as completely unknown in China as this Chinese man's name would have been known in Trenton. We spent close to a million dollars on that first trip there.

Sobin: You must have been the largest single buyer of all the 30 Americans who were there that first Fair.



Marcus: Probably so because I was buying high unit things. I was buying precious jewelry. I was buying antiques as well as commercial, contemporary products and since they had only given me one admission invitation I had to double in brass and I was running from the embroidery linen section to the antique section to the jewelry section.

Sobin: That first Fair, the things that you did bring back, did you make some errors buying some things?

Marcus: Oh, of course. You can't help but make errors buying in any market and buying in the Chinese market you are apt to make more errors because they don't understand you and you don't understand them and I think you drink so much tea in between purchases that you get waterlogged.

Sobin: That's right.

Marcus: There were differences in sizing requirements so I stayed away pretty well from any wearing apparel. I didn't think any of the wearing apparel was really of great interest. I was mainly interested in things for the home and jewelry.

Sobin; Furniture?

Marcus: Bought some furniture. Had a bad experience with it. It all split.

Sobin: You mean the veneer peeled off?

Marcus: Well, it came apart. This was bamboo furniture.

Sobin: I see.

Marcus: That was one of the unhappy experiences but you have to expect some of that.

Sobin: Have the Chinese corrected that, do you think?



Marcus: I didn't go back on furniture. I left that alone. One of the problems that I had was in embroidered tablecloths and, of course, you know their embroidery is fabulous. They copied the Swiss apensel work, put the Swiss out of the hand embroidery business right after World War I and I thought we could do a very big business on that. These were expensive cloths that had to sell from about \$500 to \$1500 each, and after I had written my first order and thought that I had been very extravagant the head of the section said, "Sorry, we can't accept this." "This is below our minimum." And I said, "You didn't say anything about minimums." "What are the minimums?" "Oh, you have to buy 12 or 20 of each pattern." And I said, "That's going to make it very difficult." So I reworked it and showed it to him again and he said, "Still below minimum." I said, "Well, this is all I can buy. All I can sell." I said, "Why do you have to have a minimum? These are hand-made articles. You're not setting up a machine to produce them." "Oh," he said, "well your order takes this much space" and he indicated with his hands about 24 inches. He says, "Our boxes are this big." He had to fill the box.

Sobin: Or they would rattle around.

Marcus: Then I came up with probably the most brilliant idea that had been contributed to China. I said, "Why don't you make a special box that's 24 inches?" I said, "I'll pay you extra for the box."



Sobin: What did he say?

Marcus: He said, "Well, I'll take it up with the committee." The next day I came back and I had set a precedent in China. They were making a special size box.

Sobin: They adopted your idea. That's marvelous. Well, you concentrated at that early Fair on these expensive robes.

Marcus: I bought these 19th and 18th century robes.

Sobin: Were they that old by the way?

Marcus: I didn't buy any of the 20th century ones and I didn't buy any of the damaged.

Sobin: More than a hundred years old?

Marcus: Yes, oh yes.

Sobin: Because I had the idea the Chinese wouldn't sell anything more than a hundred years old.

Marcus: Oh, yes, they wouldn't in porcelain. They were limiting porcelain to 19th century and most of it from about 1850 and on up which still brought it in duty free.

Sobin: Right, over a hundred years duty free, right?

Marcus: Yes, but in the robes, and I frankly have never been able to fully explain why they let the robes go at all.

Sobin: Were they as much as 200 years old?

Marcus: Some of them were as much as 200 years old.

Sobin: Were they on display at the Fair?

Marcus: No, they were packed away in a little side room filled with mothballs.

Sobin: But you knew what to ask for?

Marcus: Yes.



Sobin: Did you buy jade?

Marcus: No, I bought some jade.

Sobin: But you bought some jewelry, you said. Some antique jewelry?

Marcus: I bought quite a bit of antique jewelry.

Sobin: What does that mean?

Marcus: Well, for example, old coral, jade necklaces, mandarin necklaces with all of the accoutrements on them that were made out of coral, jade lapis, even perforated porcelain, very fine porcelain. I bought wooden beads; I was interested in buying antiques both for the fact that they had a rarity and also because they came in duty free and with the non-preferential treatment of Chinese goods, you know what import duties do.

Sobin: Lack of Most Favored Nation treatment?

Marcus: Yes, and that . . .

Sobin: Your embroidered pieces, they carried a duty, didn't they?

Marcus: Oh, everything can, the maximum duty. Embroidery is high enough even on the Most Favored Nations basis but. . .

Sobin: But you still had no trouble marketing them.

Marcus: No, we still sold them but coming back to the tablecloths I found that they would shrink. I wrote a letter of protest and they replied back that I should know that cotton would shrink; and I said, "Well, you are absolutely right. I should know that it would shrink but you, as a seller, should also know that in selling





it, you should advise me that it would shrink because I was very specific in my sizes and I even paid extra price to get them made a little bit longer so you knew that there was a problem of size and you should have forewarned me that your goods were not preshrunk. Well, there was never any adjustment made and I just had to. . .

Sobin: You had to just swallow it.

Marcus: Swallow it.

Sobin: But for somebody who follows you, well maybe they have learned by now that things have to be preshrunk or told to the perspective customer but somebody who concentrates on that kind of article could get into serious trouble, right?

Marcus: Oh, could be bad trouble.

Sobin: Maybe this is 3 1/2 years later, almost 4 years later, they may have come to grips with what our market requires so that they can avoid trouble. I think rather they have.

Marcus: I was a bit in hopes that we would see more light industry people in this country or in Europe for that matter studying and seeing exactly what the requirements in the free market are because I have great sympathy with the Chinese in trying to suddenly understand what a free market is. One instance that occurred, I was buying baskets in a room about this size and there was a Lady Chairman of the committee, as you know all of



the purchasing is done through a committee rather than through an individual, and I pointed out the baskets I wanted to buy and she said, "I am sorry. Those are all sold up." And I said, "Well, I'm sorry then; it's been nice to meet you." And the man I was with talked nicely, even said, "Sit down, that's not the way you do business in China; you have a cup of tea and we'll have a discussion and maybe the Lady Chairman will consent to let you have it." So I had some more tea and she said, "Why don't you buy the baskets on that side of the room?" And I said, "Because my customers wouldn't like them." She said, "How do you know they haven't seen them." And I said, "Well, I'm the head of my company and I have to interpret their desires through my eyes." She says, "Well, if you are the head of your company, you can buy them and tell them to like them."

Sobin: In a controlled economy, this is what's done, isn't it? You behaviour condition your customers to buy what you want them to.

Marcus: This was beyond her comprehension that I couldn't order them to like them. So when you run into that, then you know they've got an awful lot to learn about what the free market is all about and the only way they'll learn is by coming over and seeing it for themselves. They won't learn it from me telling them over there.

Sobin: They are pretty clever people though, don't you think so? Even at that very first fair when they first encountered



us. Didn't you think they handled us very well because they must have been tense and alarmed at their first meeting with us too? The first time they had seen Americans.

Marcus: You know that first meeting we arrived the day that we mined Haifong and that wasn't a very comfortable day and I was called into a special meeting.

Sobin: Free exchange of ideas.

Marcus: Yes, and I thought I was going to be thrown out.

Sobin: The chemical corporation, whose guest I was, cancelled meetings with the few of us who had appointments with them for two days sort of as a protest for that. And that was the only way we heard it was from the Chinese, wasn't it? Unless you heard it in Hong Kong before.

Marcus: I had heard it in Hong Kong before I came in and I started not to come in and I talked to a friend of mine at the Consulate who is a China Watcher and I said, "Do you think it's safe?" and he said, "Oh, absolutely." He said, "If you go in at their invitation, they will treat you perfectly; you are their guest."

Sobin: You were never harrassed or. . .

Marcus: Only at this one meeting when I was delivered a lecture.

Sobin: We did have a lot of political discussions, didn't we?

Marcus: Yes.

Sobin: Whereas at this last Fair it may interest you to know that this is the 2, 4, 6, 8, the 8th Fair since then that you couldn't provoke the Chinese in any political discussion



at all. I tried and I remember the same Chinese who would not get me on the business and kept me on politics at earlier Fairs, this time said to me we have a lot of friends here; we are very, very busy; please get down to business. Really. Anyway, you came to the Fair in the spring of '73, too, and the autumn of '73.

Marcus: Yes, the spring and winter of '72 and then the spring of '73.

Sobin: Did you follow up with better business?

Marcus: No, my business declined after the first year. I found less antiques.

Sobin: They didn't have enough available for you?

Marcus: That's right and they wouldn't let me go through -- well they did let me go to Peking as a result of the fact that the Japanese had come in and bought everything.

Sobin: Yes, tell us about that.

Marcus: I went to the head of the light industries and I said I had learned that an aggressive approach is far better than a submissive one as long as you are polite and fair.

Sobin: And fair, right?

Marcus: I said, "You know you brought me over here under false pretenses." And he said, "What do you mean?" I said, "Here's your invitation and it says antiquities. I've come over and there aren't any antiquities." "Oh," he said, "you're mistaken. There's a whole room." And I said, "Come with me; I would like to show you." And I took him up there and the room was bare, absolutely sold



out and I said, "There are no antiques." And he said, "Well the Japanese have bought them all. You should have come earlier." I said, "You should have invited me earlier; I came as soon as your invitation came." I said, "I want to go to Peking." He said, "Well, wait here until the end of the Fair and we will talk about it." I said, "No, we are not going to wait until the end of the Fair because if I can't go to Peking where I have reason to believe I can buy antiques, I'm going to go to London and go to Sothebys." And he said, "What is Sothebys?" I said, "Sothebys is a great antique house that will be having an auction of Chinese antiques sometime this week, probably November 26th." I knew that they always had a sale the last week in November. He said, "Come see me in the morning." So I went back in the morning and he said, "You're right, Sotheby is having an antique sale on the 26th. You can go to Peking tomorrow." And so I went to Peking.

Sobin: He wanted to keep you out of the hands of the competition.

Marcus: Yes, I went to Peking and I bought antiques just as I had been led to believe. Then I tried to go to Shanghai but I couldn't finesse that one.

Sobin: You didn't succeed, but you did go to Peking.

Marcus: Yes.

Sobin: And you found . . .



Marcus: And found at that time a very good selection of antiques but by the third time, in '73, the prices on those antiques had just gone out of the window. I found that the Japanese who were buying them were not antique dealers. They were textile merchants, machinery merchants, who had been told that Chinese porcelains were good speculation so as long as they were at the Fair they were buying 25 pieces, each one of them, and before you knew it, they had driven the price completely out of the . . .

Sobin: I remember very well. They put their chop, or their stamp, on everything and then they owned it.

Marcus: Well, I looked at the tickets on them and they weren't from dealers in Kyoto or Tokyo but they were from Kobi and Osaka and those are not antique markets so they were private speculators.

Sobin: Just traders of all kinds who just decided that they could privately speculate and probably that was a very good speculation for them for that time, wasn't it?

Marcus: Well, except they bought at the top.

Sobin: Oh, did they?

Marcus: And the market cracked on them and of course the Japanese economy went to pieces just about that time.

Sobin: '73 or early '74, right. The bargains were in the spring and autumn of '72.



Marcus: '72, yes.

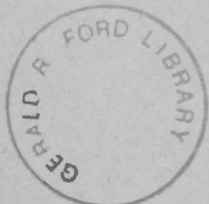
Sobin: The last bargains. There haven't been any since.

Marcus: Not to my knowledge. Now on the commercial contemporary goods that I bought, the first year they were great because people had never seen these animal baskets and by the time '73 came along, you could see them in every other store on every other street in America.

Sobin: With pandas on them.

Marcus: Because the Chinese had not learned that you can kill a market by overselling as well as you can kill yourself by underselling when you get to consumer goods and you make an article so common that you immediately get price cutting and then it becomes unprofitable so nobody buys it. So I've been curious to know how China has reacted to the recession because obviously they must have felt the recession just as other countries in the world did. Did it soften them at all in price?

Sobin: The spring of 1975 was the bottom for them. That is in my opinion I think they had many fewer visitors; their prices were still very high and it seemed to me that from what they said they didn't understand recession. This had all happened so very quickly. Then finally in the autumn Fair of 1975 they reduced their prices on everything very, very sharply and I think they picked up a lot of business as a result and I don't think we stumbled over each other to buy because the total business was only 55 million



dollars. You know large enough to go to a Fair for, but not really large in the light of our foreign commerce. I think their prices are relatively good, but I think China was viewed by most of us as a place to buy bargains and it is no longer a place to buy bargains. That's really the truth of it.

Marcus: I don't know any place in the world that's a place to buy bargains.

Sobin: China may have been the last place but with the problems of doing business in China, the problems of quality sometimes, plus the fact that they really aren't onto our way of doing business sufficiently yet and so on, then if you are going to buy goods at market prices and you can buy them somewhere else then China is not the place to buy them. On the other hand, we all want to make sure our foot's in the door and we are on to how to do business with them.

Marcus: I think China has tremendous potential sources of profitability once the Chinese really understand how the American, or not just the American, but the western system works.

Sobin: Free enterprise societies work.

Marcus: Yes, they have to understand that no retailer, no President of the United States can make an American consumer buy anything she doesn't want.

Sobin: Right.

Marcus: Secondly, they have to learn that timing is a matter of





great importance. The Christmas order coming in at Easter is worthless and probably the hardest thing for them to learn is that the American market is a very fast market, much faster than European or English markets because in Europe the lifespan of an article can last two or three years. They don't do as much advertising, as much promotion; there's not as much competition. But in the United States an article that is new can have its birth and death in one year.

Sobin: I know and it is in the interest of the producer to obsolete it.

Marcus: You go back to them and say well, he says what about buying this and you say well, it's finished. Well he says it just came out.

Sobin: Yes, of course.

Marcus: It's very difficult for them to understand how it can become a dead item so quickly.

Sobin: Don't they also have a problem with the idea of levels, as we advance the product in value through wholesalers? They don't understand why it doesn't go directly from them direct to the consumer.

Marcus: Well, I think all manufacturers, manufacturing countries, have that difficulty of understanding the function of the wholesalers. The wholesaler provides a very useful function for them at certain stages of their development. There comes a time when they can live without the wholesaler but he provides a very useful service in



the formative industrial production.

Sobin: Do you think now that the kind of activity in which you are engaged gives way to the great big chains like Sears Robuck and Woolworths and J.C. Penney and so on? Is that what is happening now in your opinion?

Marcus: I think that's pretty much what is happening now in the way of contemporary goods. What they have to offer in antiquities, I don't know. At the present time we have a buyer in the air on his way to Peking and in a couple of weeks I'll know what is being offered. It's entirely possible they may open up and sell some 18th century goods but there has been no evidence of that nor is there any evidence that they don't have it; only the Chinese have the answer.

Sobin: They must have it but whether they make it available.

Marcus: They have been certainly moving out their latest production first.

Sobin: And that sort of article that the latest production is not something that you are really interested in selling.

Marcus: I would be interested in contemporary production if, for example, they would let us come in with a group of intelligent designers who could help them modernize certain forms or certain designs to meet contemporary usefulness. If they'd let us come in with patterns that we know are correct for sizing, to meet the requirements of American customers and say yes, we would like to have this made in this piece of silk and we will buy 2,000, 5,000 units



made to these specifications and we are going to check your sample and then we are going to expect everything to come in the sample that's approved. If they would let us do that, then we could go in and create our own exclusivities and not be worried about having the same goods in the J.C. Penney store or. . .

Sobin: Do you have reason to believe they won't let you do that?

Marcus: I think that there will come a time when they'll welcome it. I'm not sure whether that time has been reached; I would suspect that perhaps it has.

Sobin: Yes, I think you could persuade them to do that.

Marcus: Because that's going to be the real future of the utility of the market to American stores.

Sobin: I think that they would be loyal to your designs and so on if you gave them to them too.

Marcus: I have complete faith in them. I think they are extremely honest people and I have enjoyed doing business with them.

Sobin: Was there a hiatus in the business? You mean you did business through '73?

Marcus: '73 and I haven't been back since then.

Sobin: No, but does that mean you haven't done any business with them, too?

Marcus: No, not directly.

Sobin: Don't you have an agent in Hong Kong?

Marcus: We have a regular Hong Kong agent who handles our shipping of Hong Kong made goods.

Sobin: But is it really important for you to go personally?



Marcus: Not necessarily personally.

Sobin: Somebody who reflects your ideas.

Marcus: But some senior executive of our store and several buyers because most of the senior executives are more specialized than I am.

Sobin: But do you desire to go back yourself, don't you, personally?

Marcus: I'd like to go back again if I could be assured of going into some of the provinces where I have been led to believe that there are small production of items that would be ample for our requirements but too small to take to the Canton Fair and I would love to get our hands on some of the folk art.

Sobin: Even contemporary?

Marcus: Yes. Contemporary folk art that's being made in Kwangchou or in Tsientsin or in other places.

Sobin: Chungking even, western China, especially maybe some of the autonomous republics that have their own customs and legends.

Marcus: That's right.

Sobin: You go as Neiman Marcus now with your special needs and according to your special posture on the industry. Does Carter, Hawley, Hale go too?

Marcus: Oh, yes the buyers from Broadway have been going every year and they have been very successful.

Sobin: From the Broadway stores?

Marcus: From the Broadway Stores.



Sobin: Now this is a different kind of merchandise.

Marcus: They are buying fashion merchandise but in a much lower price range.

Sobin: And in larger volume?

Marcus: And larger volume, yes and they are buying furniture. We don't have a furniture department but they would be buying furniture, other things as well.

Sobin: By the way, when you said you bought some bamboo furniture, rattan furniture, is what you meant I guess. Did you also buy any traditional Chinese furniture?

Marcus: Just a few old pieces. The furniture was so sold up you couldn't get anything if you wanted it.

Sobin: In China.

Marcus: Yes, in China. They were sold out by the time I got there.

Sobin: To other foreign visitors.

Marcus: Yes.

Sobin: What sort of advice might you give to other speciality stores? In other words the great big chains are all there now -- Federated is there, Allied is there, but there must be a whole host of smaller speciality stores around the country. Do they have your buying ability too? They don't I'm sure.

Marcus: There are lots of speciality stores that are operated by people with great ability. They are going to have trouble getting, meeting the quantity requirements.

Sobin: Should they aspire to go or do you. . .



Marcus: I think everybody wants to go to China.

Sobin: I know they aspire. I wonder if they should; everybody wants to go to Peking.

Marcus: I think frankly that the average small store would be better off not going to China and buying qualities that he can absorb from Hong Kong and paying the Hong Kong middleman's profit and buying what he can digest rather than going to China and having to buy enough to fill the case.

Sobin: Right, that's correct.

Marcus: Second thing if he does go to China he should take with him an extra load of patience as you know. This is no place for the impatient buyer.

Sobin: And prepare to be frustrated.

Marcus: And prepare to be frustrated but if you take the patience along and know in advance that things are going to be slower than America because they have a different system, then you won't get so frustrated.

Sobin: In spite of the need for enduring both those non-attributes or something, we still all want to go back to China, don't we? How did your wife enjoy it?

Marcus: Oh, she enjoyed it very much.

Sobin: Did she go on all three trips?

Marcus: Yes, she made all three trips.

Sobin: Did she buy some things for herself?

Marcus: Oh, she went in the government stores.

Sobin: Friendship stores?



Marcus: Friendship stores and in Peking in the small antique shops.

Sobin: Lily Chang.

Marcus: Lily Chang and bought some things and reminds me of the things that she should have bought that they wouldn't ship. In Canton, for example, I went into the government, the antique store that. . .

Sobin: Canton Kwangchow antique store?

Marcus: And saw some marvelous garden stools, rounded up about 15 of them, the prices were marvelous and then I said, "I'll pay you for these and here's where they're to be shipped." "Oh, no, we don't ship; you take them with you." Well, you know, a garden stool weighs about 90 pounds and 15 of them, I said, "How can I take them?" He said, "That's your problem." I said, "Well then, cancel the order."

Sobin: I'm happy to tell you that has now been solved, although the garden stools are probably not there anymore because now they have a shipping service and no matter where you buy anything you can call the shipping service, pay them, they will weigh it, and you pay them in advance and they will ship it wherever you want. When we go next time, if you're not there, we'll look for your garden stools and buy them for you, if you like. I have to ask you, almost in closing, what happened to your acupuncture models?

Marcus: Well, we had a complete sellout. I was there in November



just after the catalogue came out and we couldn't get delivery on re-orders so I went to the Friendship Store and I saw a whole bunch of them there. So I bought about 200 of them at retail and lugged them back to Hong Kong; we shipped them by air; we, of course, lost about \$5 on each one, but we filled the orders.

Sobin: That's wonderful. Well, I hope to visit with you in China again soon, Stanley.

Marcus: I hope so.

Sobin: It's been very, very kind of you. The sort of thing you do one has to be even more circumspect than in buying traditional minerals, or metals, or raw materials and so on. So I am very grateful to you for this. Would you like to just close with some wisdom for would-be China traders in your area -- to frighten them off or invite them.

Marcus: Oh, I think it's a great experience. China has much to teach us and I have great respect for Chinese people. I have great admiration for what the government has accomplished even though we may disagree philosophically about the method of the economy. I think it's a miracle to behold and you have to see it to really believe it.

Sobin: Indeed I agree with all of that. Thank you very much, Stanley Marcus.





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I am Julian Sobin in Ann Arbor, Michigan with Michelle Oksenberg

Associate Professor of

Political Science

AUG 19 1977

Political Science at the East Asian Studies

Center for Chinese Studies

Center for Chinese Studies. I have to distinguish in universities

which have this kind of a senate do you all give yourself different

names so that you don't have to name the university, do you think?

Center for Chinese Studies, anyway, part of the University of Michigan.

Part of the obscurity of academics

You're not so obscure these days. In fact, you're more visible

than ever, aren't you?

Well, I don't know.

How did you like being on the Barbara Walters Show - or is it

called the Jim Hart Show? Or Today Show?

The Tosay Show

I bet it was fun. You looked like you were enjoying yourself. You

weren't ill at ease at all were you?

Not at all. I enjoyed it.

Did you wish you were in Peking instead

Oh, sure

And broadcasting from there?

Yes, although there were certain frustrations in going on a trip

like that. It was fun seeing - I learned a lot about the television

industry, what its like, the limitations.

Sometimes that knowledge is dangerous especially if you consider

that those people who actually condition America, the American public



us, for example, view themselves as some kind of experts. For example, Barbara Walters, I think, really thinks that she is an expert on China. She's told lots of people so. Having been there twice, once on the original Nixon visit and ~~then~~ then the Ford visit.

Well, she has certainly, she's developed some feelings about it. I think there are differences if I may say between personalities on the television though. Jim Hart is not that way, I don't think. No, no, ~~it~~ no. He seems like a rather humble person. Very nice, I like him.

He was a wonderful successor to Hugh Downs, no I think it was Hugh Downs. No, Frank McGee.

Frank died

Although that was a towering loss ~~for~~ for the show.

Of course, it was. I'm addicted to that program in the morning.

The morning is an important time for me just to sit and read a lot of newspapers before going to the office and so forth. I'm

one of those fellows who gets in a little late and I watch the

Today Show almost from beginning to end and from 7 to 9 so I

watched you a lot. Hows that and I learned a lot from you too.

I wish there was a better communication between the business

community and you people in the academic world especially because

in the sense of not being able to, not being able to extracite

business from politics and sociology from human relations and all

the things that are impots and get facted in a trade with China.

Well, I feel very strongly that academics at this point have a



tremendous amount to learn from businessmen too who have been involved in China trade. I think that after all, 25 years, we had been without direct contact with China and a study of China for many academics is sheerly an intellectual exercise. I remember very well the night before I went into China for my first time.

When was that, Mike

Summer, excuse me, December of 1972. And I had taken my tape recorder as we all do and I was sitting in the hotel room in Hong Kong and I decided that I would tape on the evening before I went in what I thought I was going to see in China so that I could compare

Aren't you disciplined. That's wonderful.



So I sat down and this is a very sobering experience. I had studied China then for 12 years. I had begun graduate school in 1960 and I turned the tape on and normally I have no problem of talking, and all of a sudden I had nothing to say and I realized that China was simply an intellectual abstraction in my mind and that the range of possibilities for me as to what I really was going to see was so great that I really had very little idea what precisely I would see and so I knew some of the cities that we were going to so I thought well if I didn't have anything of a general nature to say, at least I would say well what did I think Canton or Shanghai would really be like and all that came on that television screen in the back of my mind was the word the letters C A N T O N, nothing to fill in. I realized I had been a huge fraud. And here you, but you people have had a tremendous direct experience. You've

learned about the mechanisms through which the Chinese conduct business, you have a feel for some of the capabilities and limits of the Chinese economics and therefore political systems and this is very important and you are a major source of information.

Well, that is nice of you to say that but you know, flattery isn't very good if you inhale it too much

That's true.

I suppose. I view the relationships - I need your confirmation of this that the relationship in the absence of normalization of relationship and really free access on both sides is that the trade people are on the vanguard really of the relationship as it goes on now and its a people to people trade relationship, isn't that what it really is now?

Well, its people on our side as you know on the Chinese side, I don't think you would call it a peoples relationship although thats what the Chinese like to call it

They're visiting as you know

Thats true. But nothing that the Chinese do in their relations with people outside the country is unmediated, all goes through some form of estate

I'm really aware of that. Let me ask you this. When you did go to China, December of 1972 what do you view as your purpose. Were you there to confirm all the things you had been studying for all the years and you thought you could do it and so on. How could you do it in a superficial overview over a couple of weeks

Very superficial, you're quite right. Well I went for several reasons. One is that I was a member of the National Committee on



US-China Relations and we hoped at that time to facilitate formal cultural ties.

You went under their auspices.

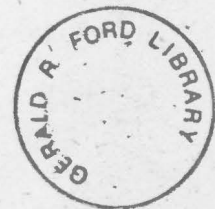
Under their auspices. But secondly I went as a scholar primarily to gain some broad visual impressions of China, of the sort that I've just been mentioning and so I just, I did not consider it a major research opportunity, but mainly an opportunity to get a feel for a land which I am devoting my life and then in a much more specific way I went with some rather disciplined questions in my mind about a few specific areas in China and ask people about those areas.

Could you really fill out your learning, your

A great deal

Really

Yes, I'll tell you the reason: I've done, I've spent two years in Hong Kong interviewing migrants from China and I also have read the Chinese press and talked to other visitors to China and so one, I use the opportunity to zero in in a very specific way in areas where I've done a certain amount of research just to see whether I was on target and whether my informants were precise as to detail and there was no problem there. I had an interview with people from the ministry of water concerns and for example, I in my research had sensed some of the politics of water concern. It seemed we were able to get down to business very rapidly. The effect of the great leap forward on water conservancy. Another thing that I had been doing a great deal of research on, their methods of the general subject of methods of communication within the Chinese bureaucracy and so I was able to have some very good



conversations and I found I was checking the reliability of my informants and it turned out to be generally, fairly accurate. But question weren't you likely to get more accurate information maybe from the migrants you interviewed in Hong Kong if they were articulate enough to express their opinions then you were with the conditioned responses that you inevitably got when you were on your visit.

I would say, yes, that the chance to do interviewing made the trip much more worthwhile but no, there were also the two have to be taken together.

Of course

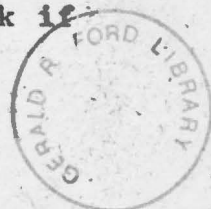
And I wouldn't choose to say which was the more important but I found, for example, that I could ask questions in a non routinized sort of way and get unprepared responses.

Do you really think unprepared or do you think that they had sort of taken into account whole ranges of questions you might ask if they had done such great homework

Oh, they knew who I was.

Mike, I have the feeling <sup>with</sup> ~~that~~ the Chinese that if you are a person of some academic importance, professional importance you are likely to appear on the newspapers later or something, the Chinese are really super cautious about the way they prepare for your visit and the way they handle you on your visit because they think you are going to get back in to the press again and they really are going to try and condition you.

I did, let me give you a couple of instances where I think it was unplanned. I went walking very frequently out of my hotel

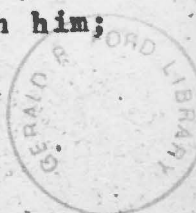


You know you get up at 5, 5:30 in the morning. The bicycles are beginning to whiz off to work. I walked out and on two occasions, 3 occasions, was invited into a peasant house. Now I could have walked, on 2 occasions into a peasant house or into a peasant headquarters in the village because we were out on the edge

Somebody accused you or you accused them

No I accused them, they just invited us out. And then in Peking this could not have been prepared. We were just walking around, you would have to prepare the whole entire neighborhood which I mean it's possible but I think it's highly unlikely, and I was with someone who was interested in quilts, American nice woman from Lexington, Kentucky and she makes quilts so we went into the courtyard and said I have an American friend. This lady likes to make quilts. Thank goodness my Chinese held up; I could remember the word for quilt and the lady looked at us and said, "Come on in." We came in and not only that but she invited us into her house, shut the door, and began to talk to us and her son was there getting ready for middle school. He spoke English. He said why don't you practice English with my son. Now that's not - it made an impression on me very definitely.

Can I ask you a question? I'm going to tell you a true story now. O.K. and I am going to tell it very, very briefly. I know a man who had an argument with the Chinese over some trade difficulty. He went to Canton between Fairs; he took another gentlemen with him; another American who spoke Chinese. The man is inveterate and



constant cigar speaker, almost adicted. The Chinese gave him a hard time ~~###~~ on his renogiation of the contract or whatever and he ran out of cigars. He got fed up and said he was going to leave. He and his American friend went walking on the street; they passed a typical Cantonese Ganton candy store for kids right on the street, a stall shop. Sitting before his eyes out of the blue was a great big box of Cuban cigars. In the candy store, he said, "My bord, look what's here and he bought the cigars." O.K. went back to the hotel, he stayed five more days, he exhausted the cigars and he went home and he concluded his business and everything was alright. He came back again; he went straight to that store; never heard of them, never heard of cigars in their whole life before. Just the two Americans walking on the street on a Sunday when one American was trying to persuade the other oh, stick around for a few more days. Now that's a weird story, isn't it. O.K. I consider this man to be very authorative, and very reflective, and very honest and so forth. Is it conceivable to you that you never would have gotten to that home and watched that child get dressed for middleschool if it had not been contrived in some way?

Well, I think that is a fascinating story with cigars although cigard=are availbale.

Of course, they are but not in this candy store for kids. They appeared and vanished just at the proficious moment. I dont know. Well, I don't know.

How can you account, Mike, just I want to make the cheese really





I heard Margaret Heckler, congresslady, congressperson from Massachusetts speak and she told a divorce case story. Stan Lubman wrote a story for the Wall Street Journal a couple of years ago, exactly the same style, the same case, the same circumstances, everything, why?

Well, the Chinese are certainly capable of putting on shows for visitors but I also

Did they put on a show for you?

I think that in this particular instance that I have sited, I would be hardput to say yes. I think in an instance of that sort, rather the entire citizenry of China at that time had been told that American friends were welcome and that they should be treated cordially.

How did they know that you were an American?

I told them.

Oh, you told them on the street.

Oh, yes and I think that was very genuine but I do think that there have been circumstances that have been programmed because in several of the places that I went, have these spontaneous type conversations. They said, oh, we welcomed President Nixon here. You must realize that because President Nixon came here, is the reason that you are here right now. Now that was clearly part of the explanation but I think its wrong to think that China is a totally regimented society in which everything is planned.

Oh, I dont' think that.

And, alright so if that is the case, then there are encounters for an American that are somewhat chance. I'll give you another example

that struck me as totally opposite and not planned to give you a sense of what can be planned. My Great Wall of China story is that I was on the wall the first time and you know being in China brings out the politician in me, there were kids all over the place and all, you go out shaking hands and all, this and so there was this guy and I went up and shook his hand and there is a lot of graffiti on the great wall of China and he was scratching his name on the wall and I saw Ting Sin #4807 and so I shook his hand and he said guess where I come from and he said Albania. At that time it was not unusual a choice; there were Albanian visitors and I said no, I come from America and he just looked at me and usually when you say you come from America you surprise, pleasure, there is a reaction. But this man was absolutely stoic, stone face. I said, you must think its strange to <sup>see</sup> be an American. He said no. I said well, am I the first American you've ever seen. He said no. Oh, I said, do you work in one of those factories here where a lot of visitors come. He said no. I am thinking nothing but silent American friendship, right. So I said, oh, well have you seen Americans that have come to Peking, have you seen Americans recently. He said no. I said where have you seen an American before. He said Korea.

Well that was pretty

That was not planned.

When we sat there for a minute and the conversation got generated again

What happens if somebody puts graffiti on the Great Wall? Do you think there is a penalty for doing that?



Evidently not, its

Did you ever see graffiti on a bamboo tree? I have

Have ~~it~~ you in Canton?

Yes. In fact I have some pictures of it really up close and in one of them says "Chen loves Chen"

Isn't that nice? That's why I say its not exactly a regimented society.

Well, you know, I think China is full of stories like this. All of us have experienced. And in some way or another they all bear on each other and overlap each other and tell a tale and they all tell us how to do business coming from the vantage point from which we are conversing this morning. What about, is it politics in China?

Oh, you bet. Politics at all levels.

Now if there is politics in China. What kind of an atmosphere is created in which foreign trade can be conducted with an ongoing purpose in the framework of a lot of politics which means that things are changing quickly.

Sure.. Well you know, first let me answer that in a very broad way and then we will get much more specific. I suppose but I think its very important to businessmen to realize that not only are they hoping to earn money quite legitimately in their trade with China but they are partaking of a historical moment in which for the first time in man's history probably, unless one goes way, way back, commercial transactions between China and westerners are handled directly, (a) not through Arab middlemen or (b) are based on genuine positions of national equity in terms of power.



This is the first time since 1840 that Americans and Chinese are interacting without American troops on the mainland of Asia with the exception of Korea, of course and some bases remaining in Thailand. So the stage is very, the setting is very different than it has ever been before and what we see really is in a historical sense the west and the east particularly the west in China searching very delicately in a historical process for the terms on which an equal relationship is based and they are not going to be based ultimately, it seems to me, on principals that are entirely stipulated by westerners. Now that is very difficult for a businessman you realize because businessmen have grown up in a western cultural tradition. They are used to western modes of trade; they have western modes of doing business. Now when the westerners came to China in 1840 they found the situation so frustrating, so obnoxious that they decided to use force to alter the means of trade and make it more favorable to them so they could do business in a western style. Well, we are not going to do that anymore. That's. And yet as you well know, I'm sure knowing you Mr. Sobin that you have done a great deal of reading on the 1840's in China, the way trade was carried out in Canton, there's been a very curious return in some ways for that period of time when Canton is open for a short period of time and westerners are allowed in. They move the Fair to the hotel. They have moved the railroad station to the hotel and they are compounded again. That's right. I mean it's a tremendous return so it's frustrating but I think it's worthwhile ~~\*\*\*\*~~ doing and it is worthwhile doing



not just as I say for money but because I think that the future of mankind depends upon being able to establish a genuinely mutually acceptable pattern of commerce here. You are talking about how one forth of mankind is integrated into a new kind of world community. That's not satisfying for how you do business I only pause for a minute because the Chinese would resent that statement you know that we are trying to integrate them

No, I said in a changed, in an altered world community, didn't I, integration in a altered world

They want to play a very substantial and important role Absolutely and make a contribution to that

I the kind of posture and construction of that community

Exactly. That's why I use the term altered world community because it is not going to be a community ~~that~~ the terms of which we will entirely stipulate.

For business people the hostilities that exist between the Soviet Union and the Chinese, does this bear on the trade posture in practice that exist between us and the Chinese now, do you think?

Yes, certainly.

Has this been brought about in part because of that hostility?

Yes, although one has to partly give a historical explanation here that is to say that the initial years of China's trade pattern, the initial years of the Peoples Republic involved a trade orientation toward the Soviet Union that diminished, as you know, in the late 1950;s and it diminished partly for political reasons but in addition diminished because the kind of things that the Soviets had to offer the Chinese were not necessarily suited to China and



then the Chinese went into a period of loss of general trade and now have moved out ~~of~~ again and I think one reason that they have moved out to the particular countries they've moved is concern with the Soviet Union. The Chinese seek to use trade for political purposes upon occasion, not always, it can be a marginal calculation so I think that the Chinese, in particular, look upon their trade with western Europe and with Japan as a way of solidifying relations with the common market countries, with Japan and with more solid relations hopefully will encourage those two areas of the globe in particular to remain firm in their resistance to certain Soviet overtures. So I think it is important and I also think in an indirect way that is hard to measure because as you know we know so little about China; we have no statistics of anything to speak about that China's military expenditures because of the sign of Soviet dispute had been rather high which means that money that could have been devoted to economic growth has had to be spent on military expenditures and so I think that China's need for imported technology, their need to hasten their economic growth rate, has been intensified because of military expenditures and so I think this is an indirect consequence and sign of Soviet dispute. I see it in a very practical sense something like this. Please tell me what you think of this idea. The Russians, the Soviet Union is an economic force in third world affairs, for example, ~~it~~ doesn't have a lot of upgraded things, they have an added value to a lot of their resources which have a great appeal to consumers. Witness the fact that their own people, I think, ~~are~~ suffering by looking in store front windows we read in the papers all the time and have

sometimes more money to spend than goods available and so forth. So it is reasonable that between the Chinese and the Russians, they both come from this great mass continent, if you like, that they share natural resources in common and therefore whatever they are going to trade in naturally, even now during the period of ~~the~~ hostility things which they need from each other which neither one of whom may have enough indigenous supply of so they have a trade treaty between them for what 2 or 3 hundred million dollars even now, don't they, Mike. And therefore there is trade going on. There's an airline that goes between Moscow and Peking, right, there's a railroad that goes between Moscow and Peking.

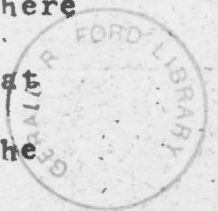
Yes

And there is communication. The Russians have the largest embassy, I am told, in Peking. Very large indeed and so there's all kinds of communication going on because it seems to be with that great big border they are inevitably going to learn to live together somehow maybe there is going to be some kind of a coexistence but something. Now on the other side, the Japanese, the Chinese used to tell me in the early stages of American friendship with them we are very concerned with the rise of Japanese militarism. They are our natural enemies and always have been historically for great periods of time as were the Russians by the way, I guess and they said we are very concerned about economic dependency on the Japanese because in view of proximity and the fact that the Japanese have no natural resources to speak of and because of the mutual need they produce all kinds of goods the Chinese may need, high levels of technology and skills that the Chinese yet don't have, ~~for example~~



the Chinese have a lot of raw materials that they felt the Japanese might strip them of raw materials at the raw material level before they could add value to them and upgrade things and so forth. You know, how does this all interact? And where do we fit into this? The Americans

That's a huge question asked by a man of vision. Let me see whether I can just comment in general. I think it is true that the basis of trade between the Soviet Union and China is not terribly great. In addition in short to the military problem you mentioned in addition to the dispute which minimizes trade the economic rationality of trade is not there. I don't think the Russians have at the present time that much to offer the Chinese with one exception I would like to emphasize this in some ways the Soviet economy is more easily geared to trade with China perhaps than other economies because the Soviets may find it easier to barter. Now Japanese conglomerates find it easy to barter but some, but also the Russians are not as oriented as our textile manufacturers are to changing fashions six months hence and so there may be a more natural, shall we say, governmental compability for trade but lets just put that in abeyance. I don't think that's an overriding consideration. Let's not forget that. I think basically the Russians just don't have that much to offer the Chinese. I agree with you that the Japanese have a great deal to offer and I think you have pointed out the areas and that there is a complimentary there. Its very important. There may be at some point in the future a certain degree of rivalry between the two economies too in their search for markets particularly in





southeast Asia or at least some Japanese worry about it. I also think you are quite right in saying that the Chinese are concerned that they wish, let me put it another way, the Chinese do not wish to duplicate the errors that they had made with the Soviet Union ~~\*\*\*\*\*~~ becoming excessively dependent on one partner. They are moving in that direction with Japan. As you know 25% of the total trade now is roughly based with Japan whereas for Japan, China is less than 2% of Japan's total trade.

Sure

So I think that the Chinese will <sup>try to</sup> ~~probably~~ diversify as much as possible particularly with Western Europe as an alternative ~~\*\*\*\*~~ source of technology, source of supply. The way they have handled their aircraft purchases is a very good example. Where the United States fits into this, I think it should be put in the following context. First of all some of the things which we have to sell the Chinese are still in my opinion if I may give a political view, are unfortunately so still on the list of things that can't be exported. These are particularly the areas where we have a world wide or a technological advantage.

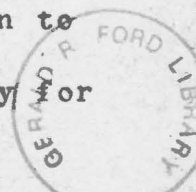
Areas in which we really excel.

Computers, aerospace technology so we can't sell to them. I hope the day comes when we treat China as others. Secondly as long as we do not have full and normal diplomatic relations with Peking, given the fact that I earlier mentioned that Peking links foreign trade, foreign policy, I think the Chinese are going to look upon us as a residual supplier. We are increasingly coming to that position as a residual supplier. However, third, I think the United States



still represents a country of interest to China given the Chinese anti-Soviet basic posture at the present time, given the parallel interest that the two countries have, the Chinese are not ~~not~~ interested in shutting the door entirely on the United States so that they will give <sup>due</sup> \*~~no~~ consideration to American buyers and sellers when they feel that there\* is a good reason for it. Now only a very strong economic rationale, the prices are right and secondarily when the political reasons seem right in the sense of trying to keep a sense of momentum. Now I must say that I don't think the Chinese have been as politically astute in dealing with the Americans on trade as they might have been. As you know, once again, we have become veery clearly a residual supplier of grain to China. I think thats a mistake from the Chinese point of view because I don't think they're building up a domestic lobby to improve China policy in thw way that the Russians have done. The Russians have really developed within the United States a very important political sector. They have cultivated the American farmer in effect and even if the secretary of state would like to use grain as a source of foreign policy against a source of strength against the Soviet Union because it is very hard to do so. Well I think the Chinese have begun to cut back on their level of purchases in the United States at too early an era, too early a time. They should have let that trade go up a little bit before they began to express their displeasure but I'm managing their foreign policy for them and I shouldn't be doing that obviously.

Excuse me for interrnrpting. There's antoher significant view that I think some people have about the cancellation of the grain last year



for example and that is that the use of the word cancellation for us in business, this is a real shock because the notion was that if the Chinese can cancel something so can we Americans in a declining market or something. That's what they did and it was never published as to ~~the~~ how they settled those grain purchases which they cancelled from Cook Industries in Tennessee. I guess they paid a substantial penalty although no one has ever admitted it but I think the failure to admit it or put in the press somewhere a subsidy of the United States government for political reasons to pick up the tab for the Chinese so as a matter of fact I wrote a letter to the State Department at the time and said since you're not going to announce it perhaps you haven't settled this at all with the Chinese and American exporter in anyway why dont you take it out of the frozen assets or something like that you know. Because I wanted to know if I could do the same thing. In other words if I have a dispute with the Chinese instead of waiting for money from China could I take it out of the frozen assets here or would the Chinese permit it or would the Americans permit it and vice versa if you like. That's a rhetorical question. The point is I think they did another disservice in any case because they disgraced something that they have so carefully constructed with us and that is that the contracts, the contract and there is never any deviation from it and so forth. We all keep our words. How can I think they keep their words. I've wondered so much about those cancellations.

Well, I don't know enough about the grain deal to know whether you



are on the mark and what the terms of the contract were and so on.

Well, the minute the cancellation yielded to publicity, however, it leaked out, I think there had to be an explanation for how it was settled in any case. What about, let me ask you this question from the standpoint of a political scientist when I first went to China I was hearing about all the three great impediments to ~~the~~ normalization of relations, Taiwan, lack of most favored nations treatment of their exports, and the claims problem. Then MEN sort of faded into the background somehow, they dealt with it in some way its there obviously all the time but I guess they finally, maybe they just weren't aware of the fact that Nixon couldn't settle it, it would take Congress to settle it but I remember they reminded Americans you business people are also politicians because you vote to, you elect a friendly president and a hostile congress which fails to grant most favored nation treatment. The claims problem is suppose is being negotiated in the background all the time. I can't imagine why that isn't settled.

As I understand it. The Chinese are simply not responding to American eagerness ~~to~~ to settle the issue. We have made a detailed proposal to them, theres just been no response.

Why not?

Well they linked now ultimately all of this to the Taiwan issue and This problem to the Taiwan issue

They wish, it is my understanding is, until we have normal diplomatic relations with China there will be no progress on any of the other

issues and that includes not only the problems of the commercial realm, the problems of the cultural realm as well.

In any case the point still being discussed with Americans now is the Taiwan issue. For example at the last Canton Trade Fair while I could engage no Chinese business negotiators in any political discussion which I tried very hard to do because that's my want if you like, I received phone calls in my hotel and have even separate meetings or evening meetings with officials of the Fair and officials of the CCPIT who had combed my company, my family of companies literature and found on page 142 of a book we had published about the food problem of the world because we are an agricultural company references that alluded to Taiwan as a nation or something like that as if there, in the way that they presented it to me was we know you don't have a two China mentality, Mr. Sobin, must have a chief somewhere who does, or perhaps your company does, but at least your printer does because he's careless in what he says. The Taiwan issue has again come to the fore. I suspect and I think there is good evidence for this that the Chinese feel the United States has not lived up to its commitments made in the Shanghai Communiqué issued during President Nixon's trip to China in February 1972 which pledged continued American progress.

But the Chinese very well know in their astute way why we haven't done any on the Shanghai Communiqué.

But knowing is not necessarily to be equated with giving up trying to put pressure on

So you just think they keep the pressure on all the time, do they?

They feel that they have to and they feel probably within a year and



a half to two years the issue will be settled but it requires constant pressure because they are aware of the domestic resistance and without that pressure little will happen. I mean the point is that they didn't put much pressure on for two years, 1972, 1973, 75, very little pressure was given as was stated. Taiwan was not raised in any particular conversation.

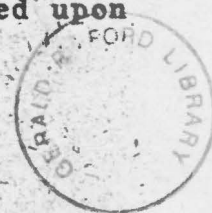
No, not particularly at all.

And the United States didn't do very much so I think a lesson that they have learned from that is that unless they put pressure we will be quite content to go along for a long, long period in this way. I think they felt they have to do a certain number of things to keep proding on this issue.

The Chinese sometimes say about themselves that they are the most developed of the less developed countries. That's the way that they have described themselves to me. They always tell me how backward they are and how much they can learn from us and so forth which is both humble and condescending

Well they are though, you know. I think once you've looked upon China not as a country but as a continent and  
Sort of diffuse, you mean.

Well, diffuse in size but also containing within it all of the problems that one sees in the globe of today and there are areas of China where after all very highly developed. They have the steel mills at Shangyon, the oil refineries outside of Peking, Shanghai itself, a respectable highly developed Asian economy in Shanghai and yet there are areas of enormous rural poverty so I think it pays to think of China as an exercise in world government



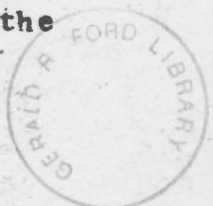
and sort of what would China look, I mean say sure, it is correct to say China is a developed country. There are areas as I say that are enormously developed and if one looks upon China as a world government and make an effort almost at world government. After all you know there are <sup>as</sup> many people living in China today, <sup>as</sup> ~~it~~ almost live in the entire world a century ago. So if you look at it as a world government then their problems are how to try to maintain unity in a country that has as many of the tensions as we see in the world at large particularly the tensions between what we now call the north and south, the developed areas and the backward areas for China there is essentially the problem of trying to retain some sense of balance, retain some sense of equity between the urban areas of the country and the rural areas and I think that's crucial to an understanding of almost everything that the Chinese do, underlying their problems is an effort to maintain unity and to have progress in a country as large and diverse as China is. I don't mean to say that China is totally has all these cleveges of the world at large but after all ethnically they are homogeneous, linguistically in a written form of language they are linguistically homogeneous but still there are those ~~it~~ aspects.

They, this balance that is so delicate between the urban and the rural

Yes

is characterized in part by the fact that the urban has to visit the rural frequently and to learn from the rural doctor

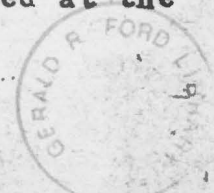
That's right



Now do the rural people learn from the urban?

Of of course, technology, entrepretural spirit although I wouldn't want to underestimate the entrepretural capbilities but particularly in a technical realm because Chinese agriculture remains a crucial problem in the development of China and any effort to keep a suitable rate of economac growth in China is going to entail the modernization of Chinese agriculture. As you know it is still a very traditional form of agriculture although in the last 10 years it ~~has~~ has developed rapidly and where is that technology going to come from? Where also is an entrepreuneral spirit going to come from? Entrepreneural in a sense, the Chinese in many ways have been taught over the millimium to live in harmony with nature. Nature was regarded as an enemy to be sure through flbods, drought, but the idea was to adapt oneself to the rythm of nature. This is sort of the dowest influence on China. Now a nation in order to continue to develop, in order to have an agriculture that ~~it~~ feeds this rapidly expanding population, the Chinese have to have confidence in themselves that they can triumph over nature and that requires an enormous cultural transformation for China, too. You know the paintings, traditional Chinese paintings, a good way to look at this. Youknow I like Chinese art very much and the traditional Chinese scrolls of the ~~the~~ dynasty and the ming and these towering mountains, beautiful scrolls, and then if one approaches the painting, one realizes that there are human beings nestled at the foot of the mountain looking very small in proportion to the Overawed by nature

Overawed ~~by nature~~ well its man, you would say overawed because you're a



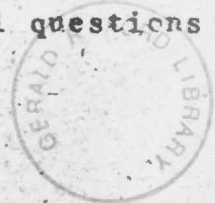


westerner. I would say maybe, as a China scholar in his proper proportion to nature, harmony with nature. The Chinese, even the Chinese paintings, the Chinese also painted, not all Chinese paintings were scrolls of mountains and landscape, but the Chinese also painted fruit as westerners. Another comparison, but when the Chinese painted fruit, the fruit was natural, hanging from the tree, but not this kind of Dutch Flemish kind of school, the fruit plucked and put in a bowl, you know, and very ready to be consumed by man and so that epitomizes the Chinese philosophy which in a curious way, I think, we westerners increasingly admire and see the wisdom of but which for China at this stage in life, in this stage of their development, they must begin to reject so I sometimes think of China and our own United States as two ships almost passing in the night as it were. You know when the westerners first came to China and had contact with the Chinese most westerners were involved in science, technology and the Chinese were studying the humanities and now if one looks at the situation today where are some of the brightest of our people going into, into the humanities and reflection about deeper philosophical questions and the Chinese

There's a great movement here back to the natural.

That's right, exactly and now the Chinese are putting their best efforts into science and technology.

Well, when you say the Chinese you mean the Chinese who are moving the country forward and mechanizing it and industrializing but the great body of Chinese really don't have any strong awareness of



technology, do they?

Well I think that they have already, the bulk of the Chinese peasantry have already begun to have contact with the first stages of modernization of Chinese agriculture. After all all Chinese rice production has need seeds, electric pumping in many portions, not all portions, fertilizer, widespread, so, yes there has been made the beginnings of technological transformation of Chinese agriculture into many areas of very modernized form.

Do the Chinese strive in the search for self-reliance at every level do you think to make every little village in every little unit, if you like, in all their society and all the geography, an intact, self-sufficient social economic political unit?

I think the Chinese have varied on this issue. Its a very important issue for the Chinese. I think they are moving away from it. I think we've seen the peak of that in China because of the problems of economy scale and the problems of quality production and the problems ~~concern~~ of comparative advantage. I think for all of those reasons the solution of a self sufficient commune is nice in theory but the Chinese have severe problems with it too,

I hope the Chinese are moving in the direction of something that a lot of ~~corporate~~ corporate management technology here has learned over the years to have a central big prototype plant which makes things which feeds satellite plants in other parts of the country for example. This makes sense you know and then each one, it becomes economically viable where there's need for reasons of comparative advantage or proximity. Raw materials or labor or something then



maybe it grows big itself and has satellites of itself and so forth. This seems to be a very effective way in highly industrialized protected markets, like the United States, that's what we really do here in a large part.

Well, I think it's very hard to compare China and the United States in many ways. I think, basically, the Chinese problem is this. First of all the transportation system is not highly developed so they have to develop a pattern which places minimum burden upon transportation. Secondly 80% of the Chinese people live in the countryside still and they have to search for a pattern of development which keeps most of the people in the countryside and minimizes the urban difference that we were talking about. And that requires a distinctive Chinese path.

What about the idea that when people were expelled during the Cultural Revolution? Some of the people in leadership positions I have heard, expelled by the Communists, rose to positions of leadership in the ~~Communist~~ commune because they were natural leaders, administrative

The Chinese press has given a great deal of publicity particularly youths who have been sent to the countryside and become leaders but we don't have adequate aggregate statistics to know precisely what was going on there and if one looks at the statistics the Chinese themselves provide one notes that a large number of the people who were sent to the countryside did not become leaders so \*\*\* From the standpoint that a political scientist is a scientist or are you an artist just to be like that. Are the Chinese trying to influence our elections here, our presidential elections? I

noticed they invited Senator Jackson. He seems to be a strong candidate. If I were the Chinese, for president

I think the Chinese, yes, I think the Chinese would not mind affecting the course of American domestic politics

And they can't possibly enjoy having a president who doesn't have a friendly congress.

That's right. Well, you know the Chinese, its very hard for the Chinese it seems to me to visualize the world beyond just as its hard for people in Washington to visualize the world beyond and I think if one looks at the history of Chinese foreign policy over the past 25 years, there has been a great tendency of the Chinese to overestimate their leverage to effect outcomes of other countries but thats not unique to China.

Of course, what kind of advise do you think you could give as a political scientist, seriously to the business community who, which, expresses and feels great alarm over the big investment that we made in getting interest in Chinese business and the Chinese interested in us, trips

I think there are risks. One cannot underestimate, one should not rather, underestimate risks involved in the instability of the Chinese political system but I would still encourage those investments as basically financially sound. I think that they, in a comparative

sense, the Chinese political system is probably as stable, if not more, than most around the world. I wouldn't care to compare Brazil and China, for example. Over a longer period of time I think the Brazil is much more volatile

Well, there is a volatility to China but there is a great volatility

in Brazil as well because the regime is not as interested in minimizing social, chances for social unrest, so that's very important to keep in mind. We've had our fingers burned in more than one place and I, so I would say that first, and secondly I think the Chinese have come, and this is what you meant by saying the Chinese are the highest of the underdeveloped countries.

Most developed

Most developed of the less developed countries. I think that the Chinese may very well be on the verge of a major take off in economic development. They have a very well disciplined labor force and I think its worth being on the ground floor of that market and there are risks entailed but I think it is a ground floor. Its going to be growing. It certainly is the pblicy of your company

Oh, of course and I think thats the right corporate stragedy for planners in all your big American corporations. Thank you very much for four very fine advise, Mike.



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Sobin: I am Julian Sobin of Boston, Massachusetts in the office in the Littaur Center of Public Administration at Harvard University with Professor Dwight Perkins of the Harvard Economics Department and acting director of the East Asia Research Center. How does that all connect, Dwight? Littaur and the Public Administration, East Asia Research Center and Economics Department.

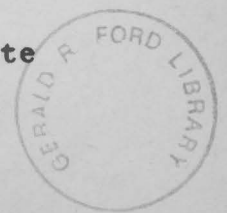
Perkins: If I try to describe the Byzantine structure of the Harvard administration we would be here all day and we would never get on China trade. Basically the East Asian Research Center is research and the Economics Department is the teaching. Teaching wing of it as all teaching is done through regular departments.

Sobin: But you teach economics, don't you?

Perkins: I teach economics but I teach about the economic development of the less developed countries broadly as well as about China in particular.

Sobin: Does that mean that you view China as a less developed country?

Perkins: The Chinese themselves call themselves a developing country. They're poor; they happen in many respects the most interesting, not only the largest, but the most interesting developing country. They have tried all the things that other people have just talked about. There are a lot of developing countries that are quite a bit richer than China at least in terms of average



income; the Chinese distribute it better.

Sobin: A country with the technical competence as the People's Republic of China which has satellites flying around and the ability to produce nuclear weapons that doesn't necessarily mean per se that they seek hegemony, does it?

Perkins: No, not at all. They have basic defense commitments that they have to meet. If they are going to defend China they feel and I think accurately, they are going to have to have their own nuclear arms and they are going to have to have their own missiles and they are going to have to get them as fast as they can. Certainly this kind of developing is a straight defensive move at the moment at least and is likely to be so for some time.

Sobin: They haven't shown any imperialistic tendencies in the modern Chinese history, have they really?

Perkins: No, I would say their whole posture, oh particularly true over the last decade or so, has been very defensive and in fact one of the things one discovers when one goes and discusses foreign policy with them is that there are many areas now where the United States interests and their interests coincide at least as far as Southeast Asia is concerned. Their principal interest at the moment is keeping the Russians from doing what they perceived Dulles tried to do in the 1950's,

Sobin: Just by way of a flashback for a moment, Dwight, what are your credentials to teach in the area of East Asia studies? Did you ever live in China?



- Perkins: I've visited China and I've lived in, it depends on what you call China, but not in the People's Republic. I've lived in Hong Kong and of course, worked in Malaysia and Japan and Korea and around the borders of China, but I've travelled there twice. My main credentials come from 20 years of study and I know both the Chinese language and history, and of course as a professional economist.
- Sobin: But you really set out to be an economist? Is that really your primary. . .
- Perkins: Well, I started in the early 1950's actually with interests in China and there was a question of how I could combine that interest in China with something that was practical and that to me meant economics.
- Sobin: Let me ask you the most obvious question of all. Do you view foreign trade as a arm of foreign policy in the Chinese sense these days?
- Perkins: I look on foreign trade in China as primarily an arm of their economic development program, not as an arm of their foreign policy program and as I see their foreign policy program is primarily oriented toward broadly speaking the defense of China, the holding off of the Soviet Union in various areas. They use trade and they use the promise of trade to encourage nations to have better relations with China but I don't think that's the main focus of their trade at all. The main focus of their trade is they need certain





kinds of materials and equipment for their economic development program, particularly in areas of advanced technology and in certain key raw materials if they are going to have the development of these areas rapidly at a reasonable cost they have to purchase them abroad.

Sobin: But you don't really mean that they don't ever export for political reasons.

Perkins: Oh they sometimes export for political reasons.

Sobin: Even staying away from oil for the moment.

Perkins: Oil, I think they exported in order to earn foreign exchange again but they use it politically particularly vis a vis the Japanese. And I think actually oil is a good case. It illustrates, I think, the way they use it. They need the foreign exchange. Oil they can get, whatever it is -- 12, 14 dollars a barrel.

Sobin: They stay a little below the OPEC price, don't they?

Perkins: I've heard it both ways and you probably know better than I do, but because they are close to Japan they get certain transport advantages and so on but I'm the wrong person to ask what the Japanese are actually paying. They pay something around the O.P.E.C. price. In any case, they are making a fair amount of money. They have a real foreign exchange shortage at the moment. They need that foreign exchange. On the other hand they also very much do not want the Japanese to get involved with the Russians in these Siberian oil and gas deals and so they are not only selling to the Japanese for that reason but they are



giving a promise of much larger sales to the Japanese in the future. They don't normally talk about the long term future in such specific terms but they have talked with the Japanese about much more substantial sales in the future. I think largely to keep the Japanese from saying we'll have to go to Siberia in order to get away from our dependence on O.P.E.C. or on Iran and Saudia Arabia.

Sobin: And Indonesia too. The Japanese too are depending on some Indonesian oil too.

Perkins: A little although they are overwhelmingly dependent on the middle east right now.

Sobin: So the Chinese delivery of oil is still a drop in the bucket to the Japanese, isn't it?

Perkins: It's a drop in the bucket now but it could conceivably be much more.

Sobin: What is it up to now? About 10 million tons a year.

Perkins: I think it is approaching that.

Sobin: From the best sources that you have available, what is the total Chinese production?

Perkins: You're talking I think in the neighborhood of 60 million tons -- 60, 70 something like that.

Sobin: Looking forward to 200 million tons in 5 years or something like that, do you think?

Perkins: 200 million tons in five years may be a little optimistic.



no one knows, of course. I don't think the Chinese themselves really know and in any case, they haven't given people accurate projections.

Sobin: Then they're still exploring, aren't they?

Perkins: They're still exploring very actively. They're drilling very actively. When the CCPIT delegation from China was down in Texas they were buying petroleum equipment and drilling equipment of various kinds. There's no question that this is an area where they're going to give a major push and 200 million tons within a decade certainly is well within the range, one would say even likely.

Sobin: And that would bring them up to the level of what? We and Saudia Arabia are the two big producers in the world and 200 million tons a year from China now would make China pretty much. . .

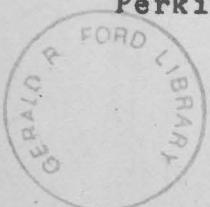
Perkins: It would make China one of the largest.

Sobin: Yes, one of the three largest, right?

Perkins: It certainly, China will be one of the world's major producers within a decade which is not quite the same thing you are saying that China is going to be one of the world's major exporters.

Sobin : Indeed true. Of course, and as their own economic development proceeds they are always going to look after themselves first, aren't they?

Perkins: I don't think there is any question they will have very heavy use particularly as their own transport system develops. They have been purchasing trucks at a great rate. They are



building trucks at a great rate, tractors. They are going to have very heavy use for petroleum within China and furthermore, if they really tried to export the bulk of their product they would break the O.P.E.C. price and in any case the price would fall so far that their incentive to export would be greatly reduced so the only reason the O.P.E.C. cartel has been able to hold up as well as it has because Saudi Arabia in particular and in a lesser extent Iran of the others has been willing to cut back production because they're earning so much foreign exchange that they can really do this without any great loss but there is a limit to how far Saudi Arabia is going to cut back and if China starts pouring Saudi Arabia's levels. . .

Sobin: The delicate balance of supply and demand and this is the cartel system.

Perkins: And the world is awash in oil right now as it is.

Sobin: I know it is. Indeed true and it is a miracle the price is staying up.

Perkins: I mean you can see the Saudi Arabians are very reluctant to let it go up further.

Sobin: Let's go back for a minute to this business of the Chinese desire to have foreign trade at all because I've heard so many times that the gross national product is something less perhaps than 200 billion dollars which is about a sixth or a



seventh the size of our foreign trade

Perkins: Of our foreign -- of our G.N.P.

Sobin: I mean of our G.N.P. and that the foreign trade component of the gross national product is only 5% or something like that. Is that right?

Sobin: You really get into a messy measurement problem because they calculate foreign trade figures in dollars and for Chinese GNP is calculated in Chinese currency and reconciling those two is no mean trick but if you go through that kind of calculation I think you are probably talking about exports plus imports over G.N.P. ratio is closer to 7,8 maybe even as high as 10%. That ratio is actually not much different than it was 15, 20 years ago and is not all that much different than it was in the 1920's and 30's actually if you go back recently looking at the figures there's been no sort of decline in China's foreign trade ratio. It's small because it's a big country.

Sobin: But you assert that most of the export practice stems from their need for goods that they have to pay for in hard currencies and therefore they have to export to get the currency. What about the fact that in some ways they support a substantial foreign aid program?

Perkins: The Tanzanian railroad is the biggest single item. Of course, there they tried very much to tie that aid to Chinese goods as do most other aid givers. The only difference is that there is not as wide a variety of Chinese goods to tie it to as there is say to the United



States or France or Germany when they are giving foreign aid. I'm not exactly sure of all the arrangements they use with Tanzania, for example, but I believe the Tanzanians had agreed to buy a certain quantity of Chinese consumer goods and other products in order to make up the foreign exchange deficit that otherwise would have occurred to the Chinese. So the Chinese don't use very much foreign exchange in their foreign aid. They do use some but mostly it's tied to Chinese product.

Sobin: By omission do you mean that there was no component of foreign policy influence when they handed out that largesse?

Perkins: Their aid program is like everyone else's. It's overwhelming orientation is toward foreign policy goals. It has very little to do with economic.

Sobin: And where are they influential in this way? Where do they give out this kind of aid? In Africa? Are they helping Uganda, for example do you think?

Perkins: There are several countries in Africa. In terms of money Tanzania Railroad is by far the largest. There was periods, for example, some years ago when they were giving Cambodia aid. I assume they will be giving Cambodia aid again. They of course gave a certain amount of aid to North Viet Nam during the war.

Sobin: Haven't they helped Pakistan too?



Perkins: Oh Pakistan - very definitely.

Sobin: There has been a substantial influence through aid to Pakistan hasn't there which is part of the reason why Pakistan is so oriented toward Chinese socialism and again by the practices in this funny world we live in the next door neighbor India practices soviet socialism.

Perkins: I think that the aid really follows though the other reasons for good relations between the two, that is both China and Pakistan want the relationship for the same reasons as a counterbalance to India in a sense and to a lesser degree the Soviet Union and therefore aid is a way of helping solidify that relationship rather than the reverse.

Sobin: Just come back to oil for a minute again. Do you think there is any prospect at all of our buying oil from China in the foreseeable future?

Perkins: I suppose anything is conceivable but I would think that they wouldn't sell very much to us. The advantages of selling to Japan both in economic terms because the transport is so small but also for the political reasons that the amount of oil they could sell to us would be a drop in a bucket compared to what we need. It could be a much larger share of the Japanese demand and it might well have some political effect and given that they can sell the oil in both places for roughly the same price



Sobin: Isn't it too easy for the Chinese to do almost all their business with Japan?

Perkins: They do do, of course, their largest business in Japan and I don't see any reason why that is going to change at any time in the future regardless of what happens say to such things as normalization. On the other hand there is a lot that the Japanese don't produce.

Sobin: Yes, but people don't always supply the things they produce. They can supply things which others produce. For example, I do. At this Canton Fair I had an absolutely startling revelation and it was the fact that Mr. Sobin in the absence of normalization of relations and your failure to observe the conditions of the Shanghai Communique and so on you have been a wonderful buyer and you are an old friend of ours now and so forth, we would like to invite you to sell us something and we don't want anything from the United States in your line but we invite you to sell goods to us from other countries. I said from where. Oh, how about from Europe. I said, "How about East Europe?" They said, "East Europe is O.K. too but don't affront us by leaving the marks on and ship the goods from a western port." "How about Japan?" "O.K." "How about the Soviet Union?" "Without the marks, Mr. Sobin."

Perkins: Well, I think they have gone to these kind of exercises





in different variations with traders for a long, long time. Games that used to be played with Japanese firms and they had all these dummy firms that were, you know, on friendly terms.

Sobin: Because of Taiwan.

Perkins: Because of Taiwan and the free normalization and so on. One's impression in the Japanese trade is that they ended up buying pretty much everything that they wanted to buy from Japan.

Sobin: Political reasons again.

Perkins: Well, they wanted to buy the products for economic reasons but the way in which they bought them they frequently used politics in a fairly active way. They didn't go buy 10 Boeing airplanes because they wanted to have a political impact on the Boeing Company in the United States. They bought 10 Boeing airplanes because they wanted to open up international air routes and a number of others. Now they wanted that for political reasons.

Sobin: When I first got to China in early '72, Boeing came a couple of days later the first negotiating team and I remember there were only a few of us there and they said here's a guy in the chemical business, let's talk to him because we can't see how the Chinese can possibly pay us for what we want to sell them so maybe we'll get this guy on the side of the barter with us. He looks



as if he is capable of buying some raw materials to make some chemicals or something. What a lack of judgment or knowledge of their ability to buy and pay in cash deals and so forth. Did we really know so little about them even as late as April of 1972?

Perkins: You mean the average trader?

Sobin: Well not just the average trader. Boeing is not an average trader.

Perkins: I think there was a tremendous level of ignorance about how to deal with China in the early years. In fact there's still a high degree of ignorance.

Sobin: That's what I'm really asking. Do we know that much more now?

Perkins: Well I think some people know that much more. If you are looking at a long term trend in terms of what the Chinese are buying and what they are likely to buy, I think the people who work in China had a pretty decent idea of what was going to happen even before the early 1970's. There were a lot of people that said the projections that people were making at that time were wrong. Well several of the economists have made such projections. I was not one, I'm happy to say. They did misjudge the grain market but in terms of the other products they had the right general magnitude. They predicted what the Chinese were going to buy and that's about what the Chinese are buying this year, for example, several hundred million dollars.



Sobin: You know we traders fumble around with products and we don't know much about what is going to happen at a Canton Fair until the Chinese lead us into it because the minute you cross the bridge you really are guided by them. They begin and end all conversations and change the subject when they want to and you go on their time frame.

Perkins: In terms of what they are going to buy at any particular fair clearly their whole bargaining strategy is to keep you in the dark until the last possible moment.

Sobin: How true, how true.

Perkins: No one can predict that in October they are going to buy so much of a particular product but you can say is that over the next five or ten years they are likely to move in certain broad directions.

Sobin: The Chinese are proceeding into a new five year plan . . . Have you been looking into this and trying to prophesize what may be its ingredients.

Perkins: Well, of course, they don't publish the five year plans anymore. They used to back in the 1950's so that you can't get a lot of very specific information but what you can do is look at what is happening to the trends in the economy and you can look at where the real bottlenecks are appearing. For example, you know that in spite of massive effort and very heavy expenditure



that agriculture is their big problem sector. Well, they still depend very heavily on agricultural products for their export earnings. It is logical to assume that as they find alternative sources of export earnings they are going to try to cut back on export of agricultural base products and that therefore as time goes on, this isn't necessarily going to happen next year, but one would expect to have it happen over this five year plan and over the next one.

Sobin: But this is also our opportunity to step into the breach and supply them with things that they need to support this program for correcting agricultural difficulties, right? They are modernizing agriculture now - is that an accurate description?

Perkins: Yes. Of course a large part of their agriculture modernization program relies on local resources. They are going right now quite heavily in the direction of agricultural mechanization and I think there is no question that they would be interested in certain kinds of mechanization in the United States. Certain American companies could probably supply specialized equipment in limited quantities but the vast majority of their equipment is going to be supplied from small scale and medium scale plants in China.

Sobin: Does that mean that they buy prototypes and cut it down to scale in a village somewhere or a small commune? Is that what you mean?



Perkins: They don't necessarily buy prototypes. They do have their own agricultural machinery research organizations and these people design machines. They clearly look at the experience in other parts of the world and use that as a base and in things like tractors you would probably find very similar types of tractors elsewhere but then they will make design adjustments to those and for other kinds of equipment such as rice transplanters that are basically developing those completely on their own because there aren't any really good rice transplanters anywhere else in the world.

Sobin: So they may be in the vanguard of people who make good rice transplanters.

Perkins: They may be in the vanguard of those who make cheap ones. The Japanese have some very expensive ones that the Chinese I don't think will ever use.

Sobin: As they modernize agriculture in accordance with a saying I heard somewhere "we only automate enough to keep full employment" they are freeing people now aren't they for other jobs?

Perkins: Yes, although the area where they are putting in most of their mechanization is during that brief period of the year when they have very heavy demands for labor. When you have double and triple cropping and now in large parts of say the Yangtze River delta, triple cropping, you have very heavy demand for labor when you are harvesting that first crop and planting that



second crop. The harvesting, the threshing, the processing the food, transporting it to the market -- all this takes tremendous amounts of labor and at the same time you are having to transplant the next crop, prepare the fields for that crop. All this takes labor and often it has to be done in a period of from two to three weeks. During that period if you can mechanize you can do an awful lot more than you could if you don't mechanize. Now they aren't mechanizing all activities. You still see very labor intensive activities in the winter where they will build huge tunnels for drainage purposes just by chipping rocks into shape and things like this. I saw a 7 kilometer tunnel this past summer which had been built by one village with almost no mortar, huge thing, and they had done it by chipping rocks into shape to make it sort of a Roman arch, but, you know, no machinery. The only machines, if you call them machines or tools, would be hammers and so on.

Sobin: Are the Chinese good farmers, do you think, Dwight?

Perkins: Yes, their yields in areas where they have adequate supplies of water are comparable to the best yields anywhere in the world. They are comparable to Japanese yields. In a sense, you know, that's a very great accomplishment but it is also a very big problem because it means that further advances mean that they have to go beyond that level and that makes it expensive.



Sobin: A hundred times as difficult and very expensive.

Perkins: Right.

Sobin: Is it true then that great countries almost as large as the United States there isn't that much arable land at all?

Perkins: They feed 800 million people on an acreage that is substantially smaller than is available in the U.S. I can't remember offhand; figures are easily available but they have about a little over a hundred million hectares.

Sobin: How many acres in a hectare?

Perkins: Two and one half. 250 million, 260 million acres, something like that. I think that comes to about a third of an acre per person and that is not very much land. You have to feed these people on that kind of land; they do it but they do it by achieving very high yield. Furthermore, a lot of that land is lousy land. A lot of that land varies from western Nebraska down into New Mexico and a lot is very dry land.

Sobin: And requires a lot more care.

Perkins: It requires care. It requires water except a lot of this land doesn't have water and bringing it in requires a massive capital investment.

Sobin: Let's change the tact just for a minute. I remember after World War II, a few years after, I heard Lady Jackson, Barbara Ward, the great British economist speak here in Boston and she said what a good thing it was



for our world that the Russians immediately postured and the Cold War began. They became the Western World's built-in accelerator, I think that was the expression she used, usually after a war there's a great period of quietude and decadence sets in and so forth until you get motivated enough. Now, is there any truth, do you think, to the fact that the Russians are China's built-in accelerator?

Perkins:

There's no question that the Chinese use their enemies to mobilize the people and in that sense the Russians provide, as in a sense the United States did earlier, provide very useful boggy-man. On the other hand, I'm convinced the Chinese really are worried about the Russians and they spend an awful lot of money on military equipment because of this. No one knows precisely but as good a guess as any, they spend 10% of their national product on their defense program. If they didn't have to spend anything like that, they could have that much left over for investment purposes and their growth rate would be that much higher. It's like the difference between Japan in the 1950's and 60's when they were spending less than 1% of their gross national product on defense and Japan in the 1920's and 30's when they were spending nearly 10% or some such figure on military expenditures.

Sobin:

Well, has China's foreign trade posture then, do you





view it as having been affected by the competitiveness and hostility with the Soviet Union? Is that what you are saying?

Perkins: Well the main effect on the foreign trade has been to cut off trade, or limit trade, with the Soviet Union to a very, very small amount.

Sobin: How much? Two or three hundred million dollars?

Perkins: Something like that.

Sobin: That's not so small.

Perkins: When you consider that back in the 1950's over half of China's trade with the Soviet Union and over 70% was with the Soviet Union plus eastern Europe.

Sobin: They have a trade treaty.

Perkins: Yes, and they certainly have a continuation of trade.

Sobin: Yes, and communications between each other. Witness the airline. They fly to each others capitals.

Perkins: The airlines do go. They still have embassies. They don't speak much but they occasionally have had negotiations over the border although they don't get anywhere.

Sobin: Over the next five or ten years what kind of trends do you foresee in buying and selling?

Perkins: We are obviously guessing at this sort of thing. I think the agricultural problems -- I mean I don't want to exaggerate their agricultural problems. They're keeping food going at a rate faster than the population. The population growth rate is coming down but that pressure



on agriculture is going to continue to push them toward reducing their dependence on agriculture exploits but if they are going to do that, they have got to find a substitute. Well, petroleum is one major possibility but the problem with petroleum is that there are limits both because of their heavy domestic demand and because of the fact if they export a whole lot, the price of petroleum won't hold up. The area where they have had the greatest success, where they have had very rapid development, ~~of course~~, is in industrial development that does not depend on agriculture. I mean in machinery. They have so many machine tool plants in China of various kinds that our delegation that went this summer we had a person who had done all his work on the Chinese machinery industry. He thought he knew all the plants in China and we started reading the signs on all the machines and 90 plus percent of all of the plants that we were looking at, he had never heard of.

Sobin: Plants with export ability.

Perkins: Many of the smaller plants don't but I think the larger plants, I mean you're talking about a very large machine building capacity.

Sobin: There have been machine tools sold. They have made a sale of machine tools to this country.

Perkins: Of course they have exported full machine tool plants to



places like Pakistan but it's not just machine tools; it is the whole area of industrial development. They have been growing at about 10% a year now for, well more than 10% if you throw in the early '50's, but for 25 years this is a very large sector.

Sobin: How do you account for the fact that they buy earth moving equipment from Bucyrus-Erie for example? Are they not making that kind of thing or do they want these things to use as prototypes to copy or what?

Perkins: I think there is much more to it than just copying. It depends on which piece of equipment. If they are only going to buy a few pieces of equipment, you can be pretty sure they are going to do it just to copy it but you take the earth loading equipment, they bought a great deal more than that and I assume that much of that is to be used to expand their transport system. They've had a very great extension of the road system, for example, in China. Now most of that is done by communes using labor. I wouldn't be surprised if much of this earth moving equipment is to be used in this sparsely populated areas where you can't do that. They also though import trucks on a regular basis because although they do produce trucks and they are increasing their production of trucks, this is clearly an area where they have had a lot of problems. They really don't have an efficient truck manufacturing capacity.



Perkins: Everywhere you go in the countryside now, or at least in the richer areas, all of these communists tell you oh, we'd love to buy a truck. They clearly have the money to buy a truck. It's not that; it's just that they aren't available and so what they do is they use their tractors instead and they tack on carts behind the tractors and they still use a lot of human and animal pulled transport in China and all of these places would just love to have trucks if they could buy them.

Sobin: They really lack transportation ability anyway and delivery systems, don't they? I understand they have a smaller railway system than India has, for example.

Perkins: Yes, I think that is probably true.

Sobin: Are they building rolling stock, do you know?

Perkins: Oh, yes. I don't know what the quantity of deisel engines they produce but they went over to deisel some time ago now. You still see a lot of steam engines on the tracks, but they were all built in the 1950's or before or imported and the like.

Sobin: Have they been buying any trucks from the United States, do you know?

Perkins: I don't offhand know.

Sobin: I don't think GM has made any sales to them directly from the United States although GM has so many interests overseas I know Japanese plants partly owned by GM and I know they have sold engine parts partly owned by GM and so on.



- Perkins: That's the kind of thing where normalization could make a difference. For example, you would probably be much more apt to deal directly although again it's a question of the extent to which GM is making competitive trucks.
- Sobin: You mean that because of the lack of normalization of relations we are deprived of a certain amount of business which might accrue to us if we were better friends and demonstrated that friendship.
- Perkins: My feeling about the Chinese is that if there is something <sup>only</sup> that can be obtained in the United States or can only be obtained in the United States with the proper quality and at reasonable cost, they will go to the United States to buy it regardless of the normalization or not but when they can buy the same thing elsewhere at almost the same price they tend to steer away from the United States.
- Sobin: Do you think that there is much that they have to buy here for the reason that we can get an export license that they can't buy elsewhere?
- Perkins: They have been buying whatever it is several hundred million. . .
- Sobin: But they made an arbitrary decision to buy the 707's for example. They could have bought more Alsuian 62's.
- Perkins: But that is a classic case. I mean the 707 is so much better an airplane than anything the Russians make.



- Sobin: So you think that most of the things they've been buying from us. . .
- Perkins: Computers might be another area where our technological advantage is so great that they clearly would prefer to buy from us.
- Sobin: But conventional things, you don't think they really are available for us to sell just because the Chinese say well you're not that good a friend yet.
- Perkins: Well, I think at least they buy less than they would otherwise. It certainly is overstating the case to say they don't buy at all.
- Sobin: Dwight, what is China's likely growth and how will it affect trade, more specifically our trade with China?
- Perkins: Well, I think they are likely to continue growing at a fairly rapid clip, 5 and 7% a year depending on political disruption. Trade will grow along with it. I think we'll grow along with it too. We'll grow a little faster if there is normalization.
- Sobin: And do you see now perceptible patterns that we could pass along to fellow friends in China's foreign trade.
- Perkins: Well, China is going to continue to import the frontier technology items that they need for copying. They are going to continue to import certain key materials that they can't produce at home. They will continue to import certain other bottleneck items for a period of time like steel and chemical fertilizer and then they are going to buy the plants to produce them in China and probably



then reduce their imports.

Sobin: Dwight, is there a reasonable chance and expectation for the United States for some rewards in trade for the typical American entrepreneurial businessman, the proprietorship, if you like, as there is for the big corporate apparatus like General Motors and DuPont.

Perkins: Sure, but that depends on what they are selling and what they have to offer. The Chinese deal at both ends of the spectrum.

Sobin: Fine, thank you very much, Dwight. We have learned so very much from you today.

